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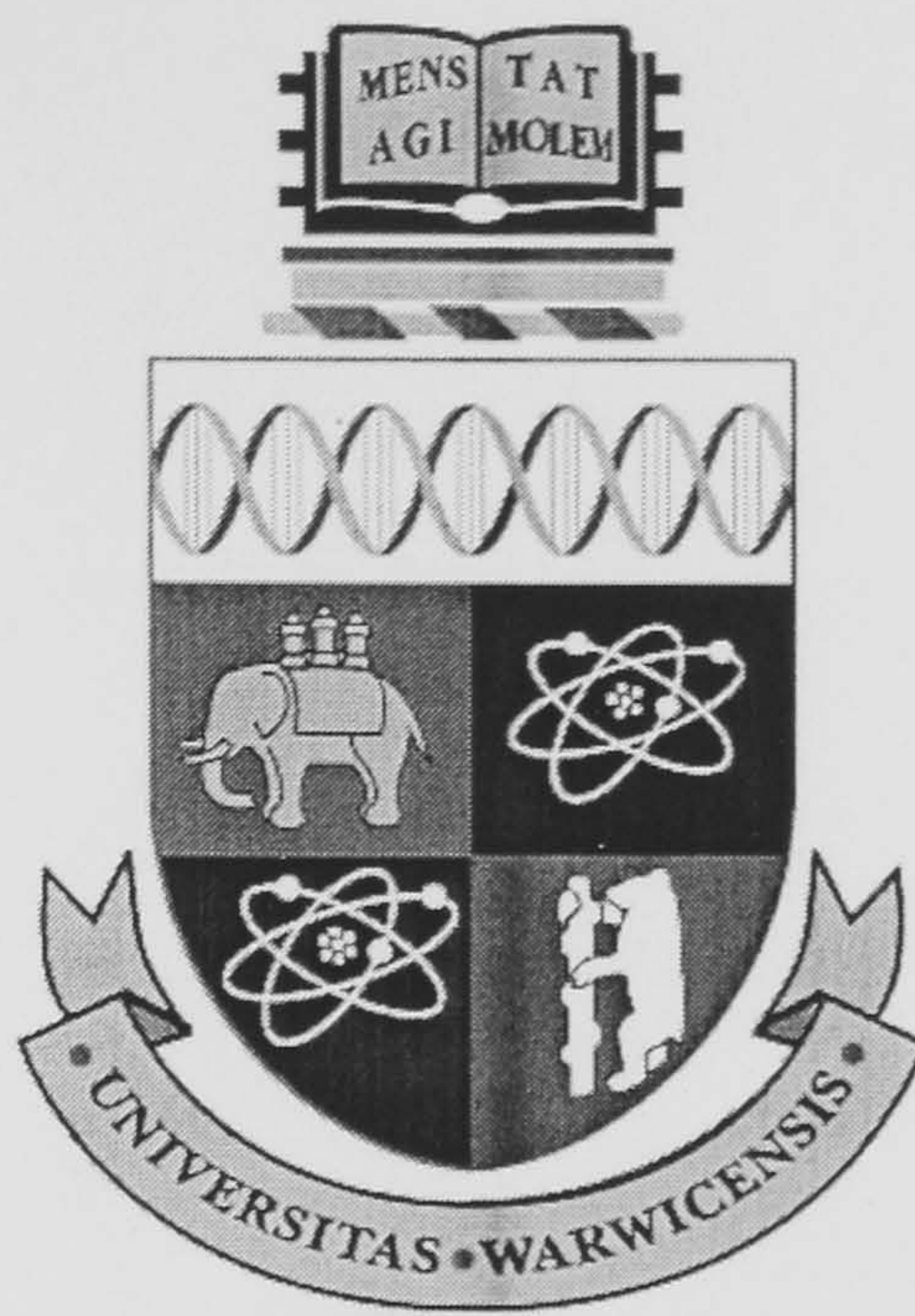
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Strategy as evolving interpretation: a closer look at the organisational impact of the Euro

by

Arjen van den Berg

A thesis submitted in partial fulfilment of the requirements for the degree of
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WARWICK

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List of Abbreviations

CE	Consumer Electronic
CEO	Chief Executive Officer
CIT	Critical Incident Methodology
DVD	Digital Video Disc
EHQ	European Headquarters
EMU	European Monetary Union
ESCP	European Single Currency Platform Group
EU	European Union
FM	Financial Manager
FMCG	Fast Moving Consumer Goods
HQ	Headquarters
IT	Information Technology
LCD	Liquid Crystal Display
MCR	Management Control Report
MM	Marketing Manager
MNE	Multinational Enterprise
PMO	Product Market Organisation
RBV	Resource Based View
R&D	Research and Development
SBU	Strategic Business Unit
SM	Sales Manager
SPAT	Switching Path Analysis Technique
TMT	Top Management Team
TV	Television
VAT	Value Added Tax
VCR	Videocassette Recorder

Acknowledgements

‘Research is the art of seeing what everyone else has seen, and doing what no-one else has done.’ (Anonymous)

At the outset of this study, in October 1999, I had the naïve idea that I could acquire an almost exhaustive understanding of a topic as broad as the present one. While my theoretical and empirical knowledge progressively increased with time, I also became more aware of my ignorance and the limitations of the endeavour. Yet, a lot has been achieved in the past few years. The fruits are partially embodied in this thesis, and partially carried on as a personal experience. I have perceived my PhD. study as an extraordinary journey, during which I encountered both myriads of fascinating ideas and moments of total blindness. This not only gave me a more realistic view of the (im)possibilities of scientific research it also made me learn about my own capabilities and my inner self. In a way this shaped me as a person as I am today. One of its tangible outcomes, this thesis, is just one of the many aspects.

Being the sole author of a thesis creates the false impression that the realisation of the study involved one single person. Many people, inside and outside academia, have made diverse contributions at different moments in time. They are too numerous to all being mentioned. It seems unfair to mention only a few of them; however, I feel it would be even greater injustice not to refer to those who made a particular important contribution to this work. Robin Wensley, who has been my mentor in the past two years of this study, has played an extremely important architectural role in this study. His remarkable capability to get quickly to the heart of the problem and to give ever pertinent advice based on his broad knowledge and understanding of past and upcoming research issues have been a most precious outset to this study. I thank my former colleagues of the department of Marketing and Strategic Management for the often interesting discussions that further shaped the research. I am particularly grateful to Simon Collinson, Andrew Pettigrew, and David Wilson for their kind willingness to read through parts of the manuscript and to provide valuable advice. Finally, the empirical study would not have been possible without the willingness of the many respondents to share their valuable insights ‘from the field’.

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Arjen

Coventry, April 2004

Declaration

This is to declare that:

- I am responsible for the work submitted in this thesis.
- This work has been written by me.
- All verbatim extracts have been distinguished and the sources specifically acknowledged.
- During the preparation of this thesis a number of papers were prepared as listed below. The remaining parts of the thesis are unpublished.

1. Van Den Berg, Arjen and Bridgewater Susan, (2002), "*The Impact of the Euro on Pricing Strategy: The Case of the Consumer Electronics Industry*", Proceedings of the 31st European Marketing Academy (EMAC) Conference, Vol. May 28 - 31
2. Van Den Berg, Arjen and Wensley, Robin, (2003), "*The Evolution of Strategic Interpretation: A Closer Look at the Impact of the Euro*", Working Paper

- This work has not previously been submitted within a degree programme at this or any other institution.

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Abstract

Recently, the strategy formation process literature has claimed that organisations increasingly have to adjust dynamically their characteristics to the requirements of the environment by constantly changing their strategies and strategic capabilities (e.g. Brown & Eisenhardt, 1997; Bartlett & Ghoshal, 1998; Mintzberg, 1994). Behind these claims lies the interest to develop an interdisciplinary view of strategy that captures the interplay between the company and its business environment. This thesis makes a marked contribution to this debate by arguing that a key component in a firm's strategic response to a change in market conditions is the result of the interpretation people develop about the event itself. It is argued that this development is a context dependent process, with outcomes emerging not merely as a product of bounded rational debates, but also shaped by the interest, commitment, and perception of individual organisational members who interpret the gross changes in the environment based on individual, organisational and business environmental stimuli. This study therefore argues that an understanding of the development of this cognition/action relationship is critical as it filters management's perceptions about the way they make sense of what is (likely to) happen(ing) and what actions should be taken. Although there are previous attempts that link managerial sensemaking to strategic action in the light of dynamic events (e.g. Bogner & Barr, 2000; Tripsas & Gavetti, 2000), no study thus far has focussed on the development of the interpretation of one strategic pattern in real time. In order to explore this issue, this research seeks to shed light on the following question: *“How do managers of multinational firms perceive and respond to the impact of the Euro over time?”*

Following the tenets of the interpretivist approach and the underpinnings of contextualism (Pettigrew, 1985b), a qualitative case study methodology was used to examine the context dependent cognition/action relationship in eight multinational organisations by tracing the intended strategy before the event took place, and compare it with the realised strategy after the Euro was introduced to find out to what extent and in which ways managers (re)anticipate the impact of the Euro to determine an appropriate course of action. In total 87 interviews and 16 focus group discussions were conducted to capture the plausible and coherent explanations. The findings presented in this study not only provide a unique insight into how the response patterns evolve over time within the sampled firms, but also show how this process is influenced by perceptions, understanding, expectations and predictions of individual managers. The main contributions of the research are related to contextual and cognitive explanations of differences in the timing of response to the unfolding patterns of the impact of the Euro. What our study suggests is that the probability of firms introducing new strategies quickly and proactively depends on the anticipation, interpretation and capability of managers to recognise and to exploit changes. Motivation to do so is based on the perceived match or mismatch of the developments with the strategy in use prior to change. As such, this study provides new insights into the interrelationship between the changes in cognition and the changes in strategic response over time. These insights have an important influence on our understanding of the strategic decision-making process.

Keywords: strategy formation, decision making process, strategic change, sensemaking, managerial cognition, Euro, multiple case study

Chapter One:

Introduction

1.1 Research objectives and significance

The strategy formation literature has long been concerned with understanding how firms adapt to the changing market environment. Whilst it has been stressed that it is of critical importance for firms to monitor the environment and make strategic decisions that keep them aligned with new opportunities and threats in the environment (e.g. Mintzberg, 1978; Quinn, 1980), it is only recent that researchers start to ask more dynamic questions to develop an understanding how firms should accomplish this alignment (e.g. Brown & Eisenhardt, 1997; D'Aveni, 1994; Meyer *et al.*, 1990; Volberda, 1998).

Amongst the proponents of this dynamic approach there is the consensus that firms operate in turbulent environments which are '*hypercompetitive*' (D'Aveni, 1994; Lewin & Volberda, 1999), '*high velocity*' (Brown & Eisenhardt, 1997), or shaped by '*jolts*' (Meyer *et al.*, 1990). Within such an environment, several critical themes become apparent that question the depth and comprehension of the traditional 'step-by-step' approach of strategy formation. It is argued that managers should have a complex and sophisticated view of their business environment in order to avoid oversimplification or ignorance of potential threats or opportunities. Several attempts are made to provide tools to develop such a vision including Hamel and Prahalad (1989; 1990) who propose the concept of strategic intent; Brown and Eisenhardt (1997) who suggest a semi-coherent strategic direction for the firm; and Hedlund (1994) who introduces the N-form which explains the elements of the ideal organisation.

All these attempts to improve the dynamic character of strategy share one common feature: it challenges the role of managers as a sensemaker. More specifically, it is agreed that strategies will be adopted as a result of key individuals recognising opportunities or threats in the firm's

environment and convincing others in the controlling dominant coalition of the accuracy of their interpretation and the appropriateness of the proposed response (Dutton & Duncan, 1987; McKelvey, 1997; McKelvey, 1997). However, this interpretation is a necessary simplification of the environmental stimuli which is shaped by the interest, commitment, and perception of the individual who interpret the gross changes in the environment based on a combination of many other individual, organisational and business environmental stimuli. Whilst this simplification helps the manager to resolve complex problems (Porac & Rosa, 1996; Porac *et al.*, 2002), it also creates a path of dependency in which decisions are made (Scarbrough, 1998). Consequently, the level of strategic success can be attributed to the accuracy and judgement of (a relative small group of) individual managers.

This recognition of sensemaking as the key component in a firm's strategic response to a change in market conditions raises a number of important questions concerning the development of such an interpretation over time, including the factors that influence this development. For example, how do managers' interpretations evolve over time? To what extent and in which ways do managers anticipate the impact of a change in market conditions? To what extent and in which ways do managers reveal resistance to change their current strategy in order to adapt to a change in the market conditions? To what extent and in which ways do managers reveal limitations in strategic choice due to internal barriers? To what extent do changes in interpretation about the impact of changing market conditions lead to changes in strategic response?

An answer to these types of questions provides insight into how firms currently adapt to a change in market conditions. It also explores issues such as why some firms are able to overcome internal forces of inertia, which further explains why some firms are able to adjust to market changes and other fail. Overall, this insight might serve as an important asset to improve the current tools for dynamic strategy formation.

Despite the increasing attention recently given to sensemaking processes (Barr *et al.*, 1992; Barr, 1998; Isabella, 1990; Weick 1995), much is still to be learned about the relationship between interpretation and environmental shifts. In particular, the way interpretations change over time as the event unfolds and creates new realities of understanding that ultimately lead to the generation of new programmes of action in organisations. Empirical research thus far has been cited for its lack of conceptual coherence, but more importantly for having a research methodology that is invisible due to the nature of cognitive elements such as noticing, intention, beliefs, anticipation.

In addition, only a few studies (see Bogner & Barr, 2000 for a notable exception) focus on the sensemaking process as a whole.

This study takes up the challenge to explore the interplay between managerial cognition and strategic adaptation under the conditions of uncertainty. The following three sections will respectively outline the context in which this interplay is studied, the scope and nature of the research, and the research setting and methodology used. Following this we will provide an overview of how this thesis is organised.

1.2 The context of the study

The desire to bring the interests of Europe into harmony by eliminating trade barriers has been an ongoing process since the Second World War. Developments in the last decade have further promoted free trade. First, the foundations of a level playing field were laid with the creation of the Single Market in 1992. This enhanced the possibilities for business by extensively reducing the regulations on cross-border trade within Europe. Second, this Single Market project was supplemented by the single currency, the Euro, which has been introduced in, thus far, eleven of the fifteen Member States of the EU in January 1999.

The key motivation and purpose of the Euro is both political and economical. Its primer aim is to create a stable European environment by putting an end to monetary tensions, exchange rate crises, and macroeconomic imbalances. From a economical point of view, the Euro has brought about fundamental changes to the economic and financial environment in the Eurozone and beyond. With its key effects being the lowering of transaction costs and the enhancement of price transparency, the single currency represents a major contribution to fostering competition and efficiency in goods and financial markets across the Eurozone. From a political point of view, the introduction of the Euro represents a quantum leap towards completing a fully integrated Single Market in the EU and lays a solid basis for the improvement in the living standards of European citizens. Besides these welfare-enhancing effects on the "domestic" economy of the Eurozone, the new setting also has far-reaching consequences for the world economy and the international community.

With the arrival of the Euro many questions emerge from many different perspectives as the expected implications of the Euro can be used not only for different functions, but also by different groups of economic agents. From an academic point of view, a predominant interest has

been devoted to the financial structural Euro environment and conjunctural economic Euro environment (e.g. Begg, 1998; Grabbe, 1996; Redwood, 1997; van Everdingen & Bamossy, 2000). The adaptation and use of the Euro in the private sector has received much less attention, yet, it is the effect of the common currency on trade that is changing the behaviour of the private sector. It is this behaviour that dominates the ‘internationalisation’ of the Euro. Thus, in this thesis we focus on the commercial adaptation and use of the Euro for businesses operating in the Eurozone. This implies the Euro adaptation process which involves issues such as order processing, invoicing, contractual positions, pricing, budgeting, payrolls, manufacturing, costing, software, and staff education. It also deals with behavioural issues being the result of cognitive and affective processes related to the stimuli that people have to deal with the Euro such as; what are competitors going to do, what will the impact of price transparency be, how is the Euro affecting products, packaging and distribution, what is the impact in terms of European orientation, and does the pricing strategy need revision.

1.3 The scope and nature of the study

Inspired by the need for further theoretical development that explores the interplay between sensemaking and strategic response to changing market conditions, this thesis aims to fill this gap by focussing on the perceived and challenged impact of the Euro on continuity or change in complex organisations over time. This behavioural issue involves the attitude the manager takes towards the Euro before, and after its introduction. This attitude is considered to be the result of their personal attempt to come to terms with various sources of input at the individual, organisational, and business level. This attitude might therefore be broad in scope ranging from, for example, a manager who might value the ability of the Euro to create a stronger ‘European image’, or a manager who might only focus on the potential disadvantages or obstacles to the use of the Euro. As such, it is expected that attitudes will vary as they will be context dependent.

What this research aims to explore is to what extent and in which ways this attitude will affect the response of each organisation to the impact of the Euro. More specifically, we highlight one particular unfolding contextual pattern - the impact of the Euro - and aim to explore; what actors understand about this pattern; how this understanding is influenced by established processual patterns; and what actions are taken as a result of both issues. This research interest into “*how do managers perceive and respond to the impact of the Euro over time?*” has led to the following key research question and its derived sub questions:

1. Key question: *How do firms adapt to a change in market conditions?*
2. Sub question: *How do managers develop an interpretation about a change in market conditions?*
3. Sub question: *What are the key barriers or enhancements to the ability or likelihood of strategic change?*

Thus, from an analytical point of view we are particularly interested in three aspects of development: managerial sensemaking (cognition), strategic response (action) and the interplay between both. In other words, we claim that in order to understand this interplay one must have sufficient insight into how managers make sense of environmental changes and how they relate this impact to their firm. With this particular focus in mind we adopted a design that aims to gather and analyse data at multiple levels, whilst focussing on the manager as the primary unit of analysis (Eisenhardt, 1989a) which is embedded in the second unit of analysis, the context of organisations. The integration and interplay of both processes and its evolving pattern of strategic change can be seen as the third level of analysis.

By exploring these aspects of development in the context of the unfolding impact of the Euro we aim to contribute to deepen our understanding of how this interplay between cognition and action evolves over time in order to explain the strategic change the firm is undergoing as a result of the identified impact.

1.4 The research setting

The empirical focus of the thesis is the Consumer Electronic (CE) and the fast moving consumer good (FMCG) industry in a period from February 2001 to October 2002. This was an era when the Euro was introduced at a consumer's level on 1 of January 2002, involving compulsory elements of adaptation for all firms operating in the Eurozone. This study adapts a dual time frame methodology to trace sensemaking and action in real time, before, and after the introduction of the Euro. Indeed, it is only through time that we can gain a better appreciation of how the interpretation of impact evolves, how the firm aims to align to its interpreted environment, and to what extent they succeed in doing so.

We explore patterns of sensemaking and action through examining the strategic development of four multinational companies (MNEs) in the food industry and four MNEs in the CE industry. Following the tenets of the interpretivist approach and the underpinnings of contextualism

(Pettigrew, 1985a), a qualitative case study methodology was chosen as the appropriate research methodology for observing this type of behaviour within the context of the circumstances of each particular organisation and its operating environment (Eisenhardt, 1989a; Hambrick, 1980; Pettigrew, 1985a). This allowed us to examine interpretation ‘in the wild’ (Hutchins, 1995) of strategy making by following the perceived and challenged impact of the Euro over a period of months to understand not just the defined strategy itself, but also how this strategy is produced.

The research sample was selected through the process of theoretical sampling following several criteria to optimise the balance between similarities and differences.

Table 1.1: Selected Cases

Company	Division	Origin	Function	Key Business
Philips	CE	Dutch	EHQ	Consumer Electronics, SemiConductors, Lightning, Medical systems
Sharp	CE	Japanese	Subsidiary	Consumer Electronics, SemiConductors
Pioneer	CE	Japanese	Subsidiary	Consumer Electronics
Kenwood	CE	Japanese	EHQ	Consumer Electronics
Nutricia	Food	Dutch	EHQ	Food and Dairy
Hero	Food	Swiss/ German	Subsidiary	Food and Dairy
McCain	Food	Canadian	EHQ	Frozen Food
Nestlé	Food	Swiss	Subsidiary	Food and Dairy

The sites selected and researched in this study were as listed in table 1-1. The data collection was conducted over a time period of two years, involving preparatory fieldwork and two main empirical research stages. The timeframe was guided by pragmatic considerations in order to clarify the beginning and end of data collection. The timeframe focussed on one major breakpoint, the introduction of the Euro at a consumer level. The data collection stages were designed around this breakpoint. From February 2001 to August 2001(T⁰), semi-structured interviews, focus groups and documentations were used to investigate the anticipated impact of the Euro before its introduction. The follow up took place 10 months after the introduction of the Euro in October 2002 (T¹) to find out how the impact was perceived and if the interpretations and challenges changed over time.

1.5 Outline of the thesis

The remainder of this thesis is structured as follows. Chapter 2 highlights current debates and perspectives related to the areas of strategy development and sensemaking. In addition, various

theories and ideas rooted in the study of organisational behaviour, internationalisation and standardisation are also examined. After presenting the two main approaches to strategy development – the strategy content approach and the strategy process approach – three critical themes that question the depth and comprehension of these approaches are discussed based on a dynamic view of strategy. Firstly, it is argued that most firms operate in a turbulent business environment. Secondly, it is emphasised that an organisation that operates in such an environment must be in a continuous state of aligning itself to this environment, which stresses the importance of understanding the changing interrelationship between content, process and context in which strategy is developed. Thirdly, we argue that the environment that is understood by the manager is the environment to which organisations respond. Based on these critical themes we first describe how five alternative literatures aimed to incorporate the conditions of nonlinearity and uncertainty into strategic development. After that the remainder of this chapter focuses on the role and importance of managerial interpretation in the formulation of a dynamic strategic response. In particular, we first detail the process of sensemaking and its relationship to strategy formulation which outlines issues such as ‘problem identification’ and ‘problem definition’. Second we examine the existing literature on cognitive and organisational heuristic devices and its related existence of inertial forces that sediment and dominate perceptions of managers. Finally, the three earlier presented research questions derived from the examination of the current literature are investigated at the end of this chapter.

Chapter 3 outlines the methodological concerns related to this study. This chapter is divided into two sections. The first part will outline the methodological framework that guided this research. In this section we will first present a graphical overview of the methodological framework. The purpose of the analytical framework is to provide an early classification of constructs scope and context of the research. This framework is used throughout the remaining chapters as a source of reference and guidance. After that the philosophical and theoretical underpinnings of this framework will be portrayed. This will be followed by the research strategy, which will outline a multilevel approach, its units of analysis, and a selection of qualitative strategies and methods under guidance of the contextualist approach. A unique model of sensemaking and the usage of strategic formation as defined by Mintzberg and Waters (1985) are presented followed by its related innovative techniques of switching path analysis and reflexive interpretation, which will detail how we trace and verify the perceived and challenged impact of the Euro. The second part of the chapter will demonstrate how this strategy is utilised by presenting the data collection methods and the analysis methods that helped to fulfil the research objectives. In particular, this

part provides the details of its unique approach and the steps that were taken to ensure validity. The combination of both parts will provide an overall understanding of the methodology and will discuss its application to the research findings as presented in chapter five and six.

In Chapter 4 we present the data collected from the eight case sites. Again we divided the chapter into two parts which corresponds with the two industries that are examined in this thesis. Both parts are structured similarly; however, a distinction is made based on the industry specific constructs. In this chapter the narrative of each case is told separately, presenting the idiosyncratic language of the field (Van Maanen & Schein, 1979). We use the set constructs of the framework as presented in chapter 3 to structure each of the cases similarly, facilitating comparison of patterns and themes. The same framework is also used to structure chapter 5 and 6 to provide a consistent set of construct to analyse the cases. The combination of chapter 5 and 6 involves the presentation of the research findings based on the analysis of empirical data collected from the eight research sites.

In chapter 5 we present the T^0 analysis which examines the situation before the introduction of the Euro. This chapter involves the analysis of three specific themes; the identification of the European positioning, the definition of sensemaking direction dependency, and the interpretation and development of the intended Euro strategy. Chapter 6 presents the T^1 analysis which examines the situation after the introduction of the Euro. In this chapter we will first analyse the extent to which the intended strategy became the realised strategy. Second we will analyse the extent to which the perceived changes in market environment led to a new course of action. The two analysis chapters together provide a detailed picture how the interpretation and its related attitude and response changed over time.

In chapter 7 the findings of the study are further analysed and discussed and compared with the current literature as outlined in Chapter 2. We could derive a schema from each of the analysis chapters that is used as a framework to explain how the firms perceived and challenged the impact of the Euro before the introduction of the Euro (figure 7.1) and after the introduction of the Euro (figure 7.4). Constructs within these schemas variously explain the anticipation of emerging market changes, the interpretation of loci of causality, and the resulting transitory states of adaptation. Brought together, these constructs present a holistic view of the interrelationship between the changes in cognition and the changes in strategic response. This provides a more dynamic explanation of how interpretations evolve over time. In particular it explains the variance

between the cases and outlines how and why collective interpretations move from unformed and tentative to well-constructed, well processed viewpoints at significant different speeds.

Finally, Chapter 8 concludes the thesis. This chapter illustrates how this thesis has made a number of important contributions to deepen our understanding of how the interplay between cognition and action evolves over time. After an overview of the study we present and elaborate the main contributions on the interplay between interpretation and strategy development and its implications for theory and practice. We particularly highlight the contributions made in terms of managerial anticipation, managerial interpretation, strategic behaviour, strategic orientation, and strategic capabilities. After that we outline the methodological contributions and implications and explain its importance for research of this particular nature. Following, the limitations of the current study are acknowledged. In particular we explain the limitations of the chosen method, the issue of reflexivity and the difficulty of separating the Euro process from other strategic development. Finally, future research agenda's are outlined highlighting key issues that deserve further attention.

Chapter Two:

Current Debates and Perspectives

This chapter provides an examination of literature which aims to inform and underpin the central research question of this study; “*How do managers of multinational firms perceive and respond to the impact of the Euro over time?*” Before we discuss the current debates and perspectives we will introduce the two main bodies of this literature review; the dynamic perspective of strategy development and the underlying process of sensemaking. In this section we will also define some key terms that will feature in the subsequent analysis. After that we will present the objectives and scope of this review which will provide us with a theoretical framing that will serve as a guide to specify how we integrate the wide ranging literatures on strategic management, organisation studies and cognition. Based on this framework we will briefly outline what key questions this chapter aims to answer, and consequently, how this chapter is structured to answer these questions.

2.1 Main bodies of literature and Definitions

The two main bodies of literature reviewed in this study are those concerning strategy development and sensemaking. In addition, various theories and ideas rooted in the study of organisational behaviour, internationalisation and standardisation are also examined. Strategy development refers to the course of action that is undertaken to achieve an organisations purpose. Sensemaking refers to an interpretative process in which people assign meaning to ongoing occurrences (Gioia & Chittipeddi, 1991; Weick, 1995). As such, sensemaking is a necessary precursor to all purpose activities such as planning actions, making decisions and so fort.

In the field of strategy development researchers have frequently distinguished between content, process and context of strategy (De Wit & Meyer, 2004; Mintzberg, 1990; Pettigrew, 1985). This fragmentation of strategy has led to the development of separate content and process traditions. The content tradition emphasises the importance of strategies themselves. Two fundamentally

different streams of research have dominated the strategy content literature in the past decades. One school of thought is most closely associated with the work of Porter (1980; 1985). It assumes that the structure of the industry in which the firm operates largely determines the firm's freedom to manoeuvre (Teece *et al.*, 1997). Mintzberg (1990) described this approach as the positioning school. More recently, Wernerfelt (1984) set trend for the resource-based view. This view argues that the fundamental determinant of a firm's performance is the distinctive resources it controls.

In contrast, the process tradition is concerned with understanding how organisational strategies are formulated and implemented and how these strategies change over time (Chakravarthy & Doz, 1992). The great bulk of contributions of process scholars to strategic management have been in the study of choice and formation. Thus the strategic choice scholars (March & Simon, 1958; Pettigrew, 1973; Quinn, 1980) use a rational scheme of intentional choice to project choice behaviour. The formation process scholar (e.g. Mintzberg, 1978; Miller & Friesen, 1980; Mintzberg & Waters, 1985) explored why there were often gaps between formulation and implementation of strategy.

While this distinction in content, context and process is proved to have analytical benefits, it is often argued that these three dimensions of strategy strongly interact (De Wit *et al.*, 1994; Pettigrew & Whipp, 1991). As such, this distinction and the role of these concepts in the strategy formulation process have often been challenged from a more dynamic perspective and from a sensemaking perspective. The dynamic view focuses its argument on the macro dimensions of strategy development arguing that organisations are not rationally moving from one strategic state to another, but instead are moving across dynamic and complex patterns to adapt to the environment (e.g. Brown & Eisenhardt, 1997; Bartlett & Ghoshal, 1998; Porter, 1991). It not only challenges the linear sequential phases of analysis – formulation – implementation, it also argues that it is virtually impossible to get various aspect of the organisation all lined up to go through a change at the same time (e.g. Bettis & Prahalad, 1995; Pettigrew & Whipp, 1991; Tushman & Romanelli, 1985). The sensemaking perspective criticises the strong emphasis on rationality in the traditional views of strategy development (e.g. Jackson & Dutton, 1988; Milliken, 1990; Thomas, 1993; Weick, 1979). According to these authors, strategising is about people's minds as frames, models, maps, concepts or schemas which develop a set of ideas with explanatory possibilities (Weick, 1995). In other words the sensemaking perspective views the strategist as a sensemaker who formulates a strategy based on the anticipation and interpretation of company surroundings (Weick, 1979).

2.1.1 Objectives and Scope of the Literature Review

This literature review has three interrelated objectives. First, it seeks to review the chosen literature critically and sympathetically in order to expose current debates and perspectives in the chosen areas of investigation. This leads directly to the second objective, which is to identify major theoretical gaps that need to be filled. Following on from this, the third objective is to formulate researchable questions that address the need for further theoretical development.

The rationale behind focusing on the dynamic view of strategy and sensemaking is fourfold. First, a specific typology of strategy development from a dynamic point of view provides an ecological view on the different elements of strategy development as it explores content, context, and process simultaneously. Secondly, an analysis of the characteristics of strategic development helps to explain the complexity of interrelationship between the elements and suggests that a holistic view of the dynamics of strategy in an organisational context is needed (Porter, 1991). Thirdly, the sensemaking perspective broadens this view as it provides an understanding of the underlying patterns of how people are making sense of the environment that surround them. Fourthly, the combination of both categories recognises the dynamic and multilevel character of the content, context and process of strategy which allows us to raise a number of important questions not only about the emergence and development of strategy over time, but also about the managerial perspectives that influence this adaptation process.

2.1.2 The Key Research Questions and the Structure of the Literature Review

This thesis argues that a key component in a firm's strategic response to a change in market conditions is the combination of the interpretation people develop about the event itself and the key dimensions of their strategy. Following this argument, three key research questions, articulated through a review of the main body of the literature, may be summarised as follows:

1. How do firms adapt to a change in market conditions?
2. How do managers develop an interpretation about a change in market conditions?
3. What are the key barriers or enhancements to the ability or likelihood of strategic change?

In order to address the relevant literature related to these key research questions, we divided this chapter into five sections. Following this introduction, the first section discusses the main schools of thought within the strategy content and process literature. From a content perspective the

positioning school and the resource based view will be discussed. From a process perspective we will particularly address the issue of strategic formation including choice behaviour. The second section will describe significant criticisms about these perspectives. Together the first two sections detail the relevant literature on adaptation, directly addressing the first research question. After that the third section is concerned with central debates and perspectives on sensemaking. In this section we will discuss the elements of sensemaking followed by a review of the sensemaking process. This section provides details about the underlying cognitive process of strategy formulation, which further helps us to understand how managers develop an interpretation. The fourth section discusses the discontinuous change perspective. In this section we will review the current understanding of the key barriers or enhancements to the ability or likelihood of strategic change. In particular we will explore the concept of inertia from a cognitive and an organisation point of view. Moreover, in this section we will also present the key firm abilities and capabilities that influence inertia. In the final section, we will briefly summarise and point out the key relationships of the defined research questions with the reviewed literature.

2.2 Strategy adaptation processes

The key question strategic adaptation aims to answer is; how can the current, and potential, strengths and weaknesses of the organisation be aligned with the current, and potential, opportunities and threats, in such a way that the firm will be able to reach its aims (De Wit & Meyer, 2004). As such, a definition of strategic adaptation very much depends on the context in which it is studied (Van de Ven, 1992). Since the term ‘strategic adaptation’ evokes irresolvable controversy regarding the importance of the adaptation that occurred, it maybe less confusing and more useful to refer to ‘*adaptations of strategy*’ rather than strategic adaptation. From this point of view, the content perspective addresses the issue of adaptation from a ‘*what did the firm (or should have) decide(d)*’ viewpoint, while the process perspective is primarily concerned with ‘*how did the firm (or should have) form(ed) the strategy*’. In this section both perspectives are discussed.

2.2.1 Content perspective

Strategy content research is concerned with the effective positioning of the firm vis-à-vis its environment (Pettigrew, 1992). From this point of view, strategy researchers have long been interested in performance differences across firms. A portion of these differences may be due to unique firm characteristics and actions (Wernerfelt, 1984); another portion is due to the conditions in the industries in which firms operate (Porter, 1980). Traditionally, industrial organisation

research has addressed the latter. This perspective provides an important backdrop for strategy research (Montgomery *et al.*, 1989). More recent developments break with this traditional research by recognising that firms in fact can and do influence the structure of industries in which they compete (Teece *et al.*, 1997). While both views share the assumption that an alignment between the firm and the outside world must be established and maintained, what divides them is their way of achieving such fit. We will discuss both the positioning school and the resource based view in more detail.

2.2.1.1 The positioning school

The positioning school (Mintzberg, 1990) emphasises the importance of a firm taking their environment as a starting point when determining their strategy (Rumelt, 1980). It is argued that successful companies are externally-oriented and market driven (Day, 1990). Such companies take their cues from customers and competitors in order to set their own strategy, whereby strategists analyse the environment to identify attractive market opportunities (Porter, 1980). In other words, this approach argues that understanding the structure of the industry allows firms to position them in such a way that they can take advantage of the insights gained (Caves, 1980; Hatten & Schendel, 1977; Hofer & Schendel, 1978). The belief that there are a limited number of viable strategies² to do so is an essential feature of the positioning school and has practical implications for firms. A generic strategy that matches the conditions at hand is selected (Hofer & Schendel, 1978; Mintzberg *et al.*, 1998) and the organisation adjusted to deliver that strategy.

This also asserts that industry structure determines firm conduct and assumes that firms are homogeneous (Cool & Schendel, 1988). This suggests that there will be one optimal strategy that all firms in an industry will adopt (McGee *et al.*, 1995). However, empirical studies show that groups of firms cluster around different strategies or positions on a range of strategic dimensions (McGee & Thomas, 1986; Cool & Schendel, 1988). Caves and Porter (1977) suggest that strategic groups are formed partly as a result of variations within the industry structure and partly as a result of similar investment decisions in the past.

2.2.1.2 The resource based view

While the positioning school argues that companies should adapt itself to its surroundings, the resource based view (RBV) proposes that the firm should attempt to adapt the surroundings to itself by aiming to achieve an environmental fit based on its resource based strengths. From a

² See for example Porter's (1980) three generic strategies; cost leadership, differentiation, and focus.

strategic point of view, the emergence of the RBV of a firm in the 1980s first focused attention on the internal assets of an organisation and their relationship to competitive advantage. Based on earlier work of Penrose (1959), the RBV of strategy argues that organisations are bundles of resources which managers have to develop and build towards achieving their strategic objectives (Grant, 1991; Prahalad & Hamel, 1990; Wernerfelt, 1984). These basic resources constitute inputs into more complex resource clusters built up within each organisation. How effectively these clusters are built and managed is determined by managerial competencies or capabilities (Eisenhardt & Martin, 2000). Since such managerial competencies will vary, this suggests that two firms with the same physical resources but with different managerial or organisational talent will generate different levels and types of performance (Teece *et al.*, 1997). RBV researchers therefore argue that different strategies may be pursued in the same industry resulting in different performance levels, as a result of similar resources but different competencies (Eisenhardt & Martin, 2000).

Wernerfelt (1984) sees resources as anything that could be thought of as a strength or weakness of a firm. In suggesting this Wernerfelt adopts Caves (1980) definition of tangible and intangible assets that are semi-permanently tied to the firm. Capabilities then refer to the capacity of a team to perform some task or activity that may involve one or more combinations of resources (Grant, 1991). Capabilities are made up of complex patterns of coordination between people and other resources. From this perspective Nelson and Winter (1982) argue that capabilities may be a routine or a number of interacting routines. Teece *et al.* (1997) argue that the RBV recognises the nature of importance of resources and capabilities for the sustainability of the competitive advantage(s) of the firm; however, it does not attempt to explain this nature.

2.2.1.2.1 Dynamic capabilities

In attempting to identify the dimensions of firm-specific capabilities, the authors introduce the concept of dynamic capabilities. These dynamic capabilities are defined as strategic routines by which firms achieve new resource configurations to deal market changes (Eisenhardt & Martin, 2000). So in order to generate new strategies the managers pool their various business, functional and personal expertise together to make strategic choices that shape the strategic moves of the firm (e.g. Eisenhardt, 1989b; Fredrickson & Mitchell, 1984; Judge & Miller, 1991). Therefore, Teece *et al.* (1997) characterised dynamic capabilities as unique and idiosyncratic processes that emerge from path-dependent histories of firms.

2.2.1.3 Criticism of the strategy content approach

The positioning approach to strategy has come under significant criticism since the 1980s. Typically the positioning school has been described as ‘prescriptive’ (Mintzberg & H & Waters, 1990), linear (Chaffee, 1985) or economically rational (Knights & Morgan, 1991). Similar comments have been made about the RBV (Conner, 1991; Oliver, 1997). Much of the criticism relates to the adaptation of ideas stemming from the planning school (Mintzberg, 1978). In particular the decoupling of strategy making from strategy implementation has been widely criticised (Kauffman, 1995; Mintzberg & Waters, 1985). This has significantly increased the debates about the focus of content strategy on the firm or the industry rather than taking a multi level view (Mintzberg *et al.*, 1998). Critics have also raised particular conceptual and empirical concerns that relate directly to the content of strategy. It is argued that there is not a single vision of the firm based on resources, competences; rather there are several views of the resource-based (Teece *et al.*, 1997) firm. Most of these views are essentially static (Barney, 1991; Peteraf, 1993; Liebeskind, 1996), whereas other are more dynamic (Amit & Schoemaker, 1993; Teece *et al.*, 1997; Nonaka *et al.*, 2000), but introspective and centred on the firm itself. In addition, the adaptation of more dynamic approaches has been hindered by the research methods commonly utilised. Cross sectional methods with data collected from a single point in time dominate research on strategy content. These methods are biased towards a static perspective.

2.2.2 Process perspective

The process perspective pays more attention to strategically relevant events taking place within corporate entities. Key emphasis is put on the question how the formation of strategy takes place, as well as how the process of strategy formation can be made more effective. This approach deals with issues such as the impact of strategic planning efforts or the influence of decision making (Eisenhardt & Zbaracki, 1992). As such, strategy process formation is portrayed as a linear progression through a number of distinct steps (De Wit & Meyer, 2004; Mintzberg & Waters, 1985). This linear progression is predominately researched from three different perspectives: the planning perspective, the learning perspective and the combination of both perspectives. Before discussing the concept of strategic formation, it is important to understand the positioning of these perspectives within the strategic decision making literature. Strategic models of strategic decision processes aim at depicting and explaining the process of strategic decision making. Since they are based on varying notions of organisations (e.g. Allison, 1971; Chaffee, 1985; Lyles & Thomas, 1988), their conceptualisation of decision processes can differ significantly. We will first discuss the most distinct differentiation which is drawn between two opposed models: the rational-

analytical model that proposes the need for planning and the adaptive (contingency) model that argues for the importance of learning.

2.2.2.1 Planning versus Learning

Formal strategic planning is an explicit and ongoing organisational process with several components, including establishment of goals and generation and evaluation of strategies (Ansoff, 1965; Armstrong, 1982; Steiner, 1971). As such, planners collect data, forecast, model and construct alternative future scenario's (van der Heijden, 1996). A distinct group of authors, who have addressed the issue of process formulation, have presented their arguments based on the need for rationality, logic, and comprehensiveness (e.g. Fredrickson, 1983; Miles, 1980). The main premises of this 'planning' approach are that strategy formulation is a controlled process whereby the unique strategy is designed by the strategist in great detail so it can be implemented once it is formulated (Mintzberg, 1990).

In contrast, adaptive models focus on decision processes related to firms adapting to environmental circumstances (Lindblom, 1959). Organisation theorists (e.g. Duncan, 1972; Lawrence & Lorsch, 1969) assume the environment to be a source of critical contingencies. Thus, environmental factors serve as vital influencing factors on strategic decisions (Barney & Ouchi, 1986). The key argument of this approach is that it sees the environment as subject to influence by individuals (Astley & Van de Ven, 1983). The idea of learning as part of organisational adaptation is widely supported in the literature. Cyert and March (1963) make the point that organisation learn by adapting their goals, their attention rules and their search rules. These ideas are echoed to some degree by Argyris (1999) in his concept of single and double loop learning, as well as the idea of espoused theories and theories in use. Managers from this point of view have the freedom to change contextual factors. Organisations are therefore continually constructed, enacted and changed by organisational members. Accordingly, the manager can be said to have a proactive role in guiding the process of adaptation. Following this argument, incrementalism derived contrasting the planning approach (e.g. Quinn, 1980; Wrapp, 1984). The main contribution of this approach is the observation that managers of successful firms are able to make and remake strategic decisions in order to respond to the changing market environment (see for example Mintzberg & Quinn, 1991; Wrapp, 1984). In other words, it is assumed that learning, especially in unstable environments, is a vital element that acts as a precursor of strategic decision making (Mintzberg, 1994; Mintzberg & Quinn, 1991). Unlike the rational approach, plans are rarely announced or recorded in a formal planning document, but remain broad, general and non

quantified (Quinn, 1980). Despite the plea for incrementalism, and hence high levels of collaboration and flexibility (Volberda, 1998), Quinn's view (1980) seems to be that the top team remains the architect of strategy, like the planning school.

2.2.2.2 Choice behaviour

While both models seem to be in strong conflict, supporters of each have been moving closer together (Hrebiniak & Joyce, 1985). The number of authors who argue for elements of both models has increased (Astley & Van de Ven, 1983; Hitt & Tyler, 1991). This has resulted in the emergence of the strategic choice model which is positioned between the two conflicting models. Child (1972) most explicitly argued for a less rigid view of the interaction between organisations and their environment. He called for a more voluntaristic or '*strategic choice*' approach to organisation-environment relations. In other words, the strategic choice perspective suggests that proactive adaptability and loose coupling between organisations and environment allows structural variation and renders organisations less vulnerable to homogenising forces exerted by the environment. Child (1972) amongst others (e.g. Hrebiniak & Joyce, 1985; Jemison, 1981; Khandwalla, 1977; Provan, 1989) has argued that organisations are not always passive recipients of environmental influence but also have the power to reshape the environment. Further, choice situation is posited to influence the number and form of strategic options, making different situations conducive to different strategies (Hrebiniak & Joyce, 1985).

2.2.2.3 Strategy formation

The debate on planning and learning schools of strategy process research has revealed that strategy formation is much more complex than these two extremes represent. Not surprisingly, other modes of strategy formation have been suggested, summarised and integrated by Hart (1992) into five distinct strategy making postures, and narrated by Mintzberg (1990) into ten schools of thought (see table 2.1). Particularly the prolific output of Mintzberg has set out to classify the main strands of strategy formation, including critical thought (Mintzberg, 1973; 1978; 1985; Mintzberg & Waters, 1985; 1998). This work has been invaluable in stimulating thought, and can particularly be seen as a guide to the key authors in the field. Some of the strategy models described and classified by Mintzberg have a weaker claim to the title of 'schools' than others, however, this body of work has clothed much of the field with a semblance of order. Table 2.1 displays these schools and concepts of strategy, and a selection of its key authors.

Table 2-1: Schools of Strategy³

School	Strategy Formation as:	Key Authors
Design	Process of Conception	Learned et al. (1959)
Planning	Formal Process	Ansoff (1987); Steiner (1969)
Positioning	Analytical Process	Hatten and Schendel (1976)
Entrepreneurial	Visionary Process	Schumpeter (1934)
Cognitive	Mental Process	Polanyi and Prosch (1975)
Learning	Emergent Process	Lindblom (1959), Cyert and March (1963)
Power	Process of Negotiation	Cyert and March (1963), Pettigrew (1977)
Cultural	Collective Process	Rhenman (1973)
Environmental	Reactive Process	Meyer and Rowan (1977)
Configurational	Process of Transformation	Miles and Snow (1978)

Despite this variety of definitions, there has almost always been a common theme, that of a deliberate conscious set of guidelines that determines decisions in to the future (Mintzberg, 1978). Strategy formation can therefore be described as the process whereby the insights and thoughts of key strategists are converted into formulated strategy. Mintzberg’s (1994) concept of strategy formation as an impenetrable ‘*black box*’ seems to be key as it captures the notion that the processes used to arrive at the total strategy are typically fragmented, evolutionary, and largely intuitive (Quinn, 1980). The strategy therefore tends to evolve as internal decisions and external events flow together to create a new wide range of consensus for action. This points out that study of the process of strategy formulation involves analyses of both discrete and identifiable decision events and of the pathways to and outcomes of those decision events, together with the connections between successive decisions over time (Pettigrew, 1992).

Several attempts are made to provide a foundation for exploring strategy development from this perspective. Lindberg (1990) for example, makes a distinction between proactive and reactive strategies. Abell (1978) discusses the anticipation and response process strategy. Mintzberg, Raisinghani and Theoret (1976) draw a line between structured and unstructured processes, while Mintzberg and Waters (1985) redefine this process as deliberate and emergent. This later

³ The first three schools are characterised as prescriptive, the next six as descriptive, and the last one as integrative. It needs to be stressed that these schools are the perception of, and, in most cases, have been labelled by Mintzberg. The exception and premises of each school and examination of some of the authors they quote does not alter this fact. Classifying some of these approaches as strategy schools/approaches to strategy may be arguable.

approach is most often adapted in the current literature to describe the evolution of strategies as the process between the intended strategy and the realised strategy (see figure 2.1).

The deliberate strategy is described by Mintzberg (1994) as a pattern, that is, consistency in behaviour over time. In addition, an intended strategy that is fully realised can be called a deliberate strategy. Any strategy that is intended but not realised to any extent is described as an unrealised strategy. Mintzberg sees an emergent strategy as ‘a realised pattern which was not expressly intended. Actions were taken one by one, which converged in time in some sort of consistency pattern’ (Mintzberg, 1994 p. 25). Important in this context is the recognition that no strategy is purely deliberate or purely emergent. From this perspective Mintzberg (among others) points out that all real world strategies need to mix this two in one way – to attempt to control without stopping the learning process which is vital for firms in order to improve the chosen strategy if necessary (Mintzberg, 1994). This has been proposed earlier by Mintzberg and Waters (1985) who defined planned strategies on the one end and the imposed strategy on the other. The planned strategy consists of the statement of clear articulated intentions, which are formulated in as much detail as possible in order to be implemented. However, this strategy (like many others) is based on the assumption of a stable environment which is highly volatile. In reality the environment in which the firm operates is changing rapidly and external factors can impose strategies of an organisation. The distinction between deliberate and emerging strategies aims to capture this thought.

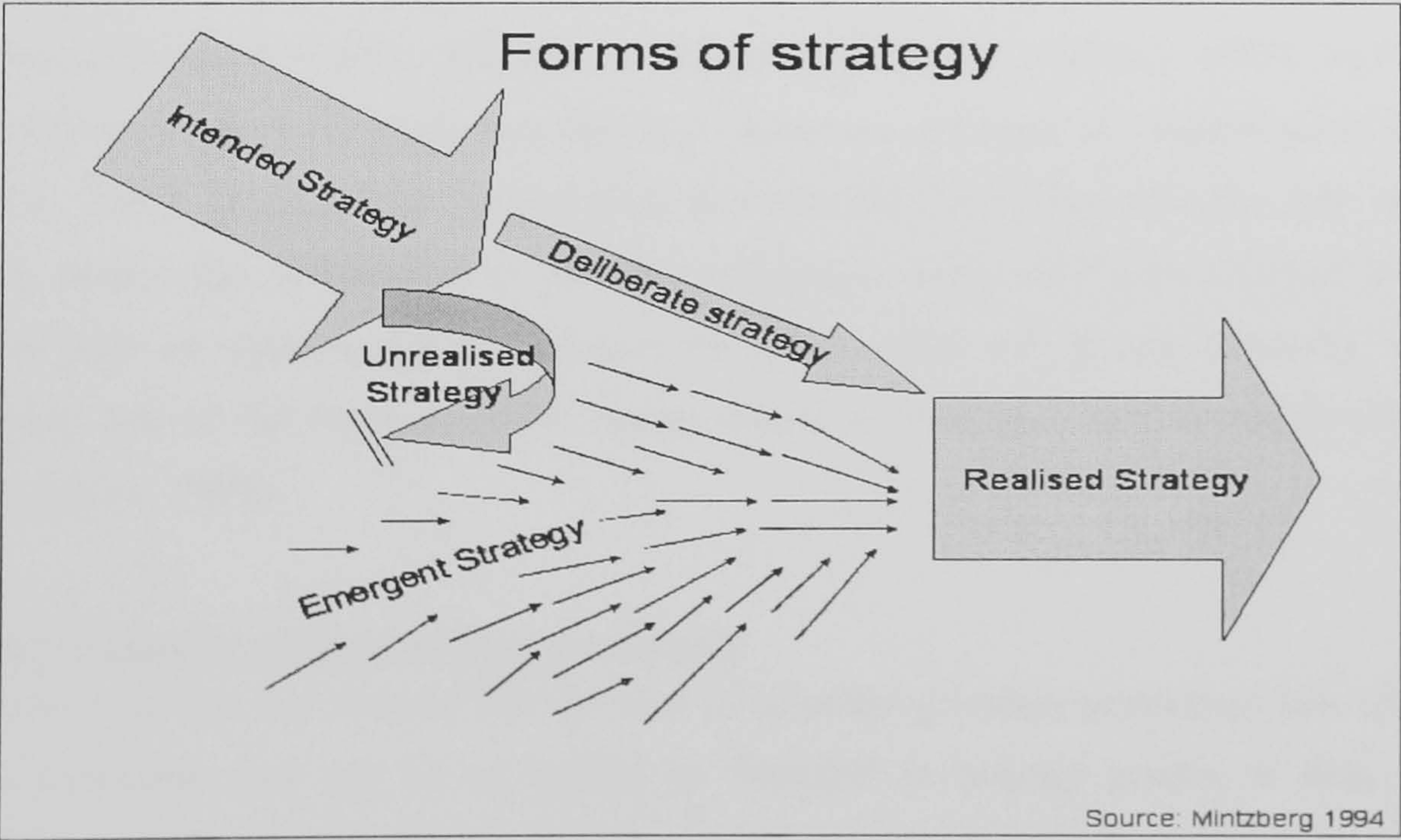


Figure 2.1: Forms of Strategy

2.2.2.4 Criticism of the strategy process approach

Much of the criticism of the strategy process approach is not about the value of planning and control as a means for managing organisational processes, but more if these means are part of the strategy formation process (e.g. Quinn, 1980; Wrapp, 1984). It is therefore not surprising that scholars tend to adopt very different views of strategy process, and the views they adopt influence the questions they ask, the research methods they employ, and the contributions they make. As a result we find significant empirical inconsistencies. Some studies (e.g. Eisenhardt, 1989b; Miller & Cardinal, 1994; Priem & Rasheed, 1995) found that formal strategy making processes or planning are positively associated with firm performance in unstable, turbulent and dynamic environments. Other studies concluded formal strategic planning is best suited to stable environments (Fredrickson & Mitchell, 1984; Mintzberg, 1973) but recommend incrementalism for unstable, complex, dynamic environments facing high uncertainty, discontinuity or rapid change.

What this implies is that it remains arguable to what extent explicit plans are needed to articulate intended courses of action. In general, planning and control are viewed as valuable for routine activities that need to be effectively organised (Mintzberg, 1994). In contrast, incrementalists argue that planning is viewed as less suitable for non-routine activities that involve doing new things. What particularly stands out in this debate is that much of the criticism relates to the fact that strategists rarely have the luxury of using generic solutions to fix clearly recognisable strategic problems. Instead it is argued that strategic problems are essentially unique (see for example Quinn, 1980), highly complex (DiMaggio & Powell, 1983), linked to other problems (Abrahamson, 1991), difficult to recognise (Rittel & Webber, 1973), and can be interpreted in multiple ways suggesting that there is no correct answer or a limited set of solutions (Pettigrew, 1985). Nevertheless, writers from the planning school highlight the very important idea that, despite the proliferation of planning techniques, many strategists continue to use the analytical tools of scanning the environment for opportunities and threats, assessing corporate competence and of the features of the design school method (e.g. Hill & Westbrook, 1997; Mintzberg *et al.*, 1998).

2.3 Dynamic adaptation process

The previous section has stressed that the idea of classifying human behaviours into schools of strategy formation may not be as helpful as intended in helping people to deal with an increasingly turbulent and non-linear environment. This points out that the positioning schools as

displayed in table 2.1⁴ are not as distinctive as suggested by Mintzberg (1990) and should be used in combination as they are all underpinned by the same principle of intension and emergence (Mintzberg *et al.*, 1998). Subsequently, it suggests organisations can no longer afford to adapt a unidirectional or step-by-step approach to strategy development as suggested in the previous section.

What this refers to are the characteristics of complexity. Mason and Mitroff (1981) refer to complexity as the '*condition of being tightly woven or twined together*' (1981 p. 5) and mention characteristics such as interconnectedness, complicatedness, uncertainty, ambiguity, conflict and social constraints. These authors observe that much of the complexity with which planners have to cope is organised, rather than disorganised. In other words, it seems to be more appropriate to see planning as a guiding device that gives pattern and organisation to the whole.

As strategy making is comprised of many problems and issues, which are highly interrelated, and difficult to isolate for separate treatment it appears to be necessary to adopt a more dynamic and complex approach to strategy making (Markides, 1999; Volberda, 1998). Figure 2.2 illustrates such an approach (see also Feurer *et al.*, 1995). An important addition to this approach is that it should be taken into account that managers are only capable to deal with a certain amount of complexity. Thus, managers' mental models strongly influence how they interpret the environment and formulate alternative strategies (March & Simon, 1958). These mental models are necessarily simplifications that managers use to make sense of complex and confusing competitive arenas.

⁴ With the exception of the configurational school which echoes the idea of the adaptive mode of strategy formation. As such, this school is seen as offering to integrate the messages of the other schools.

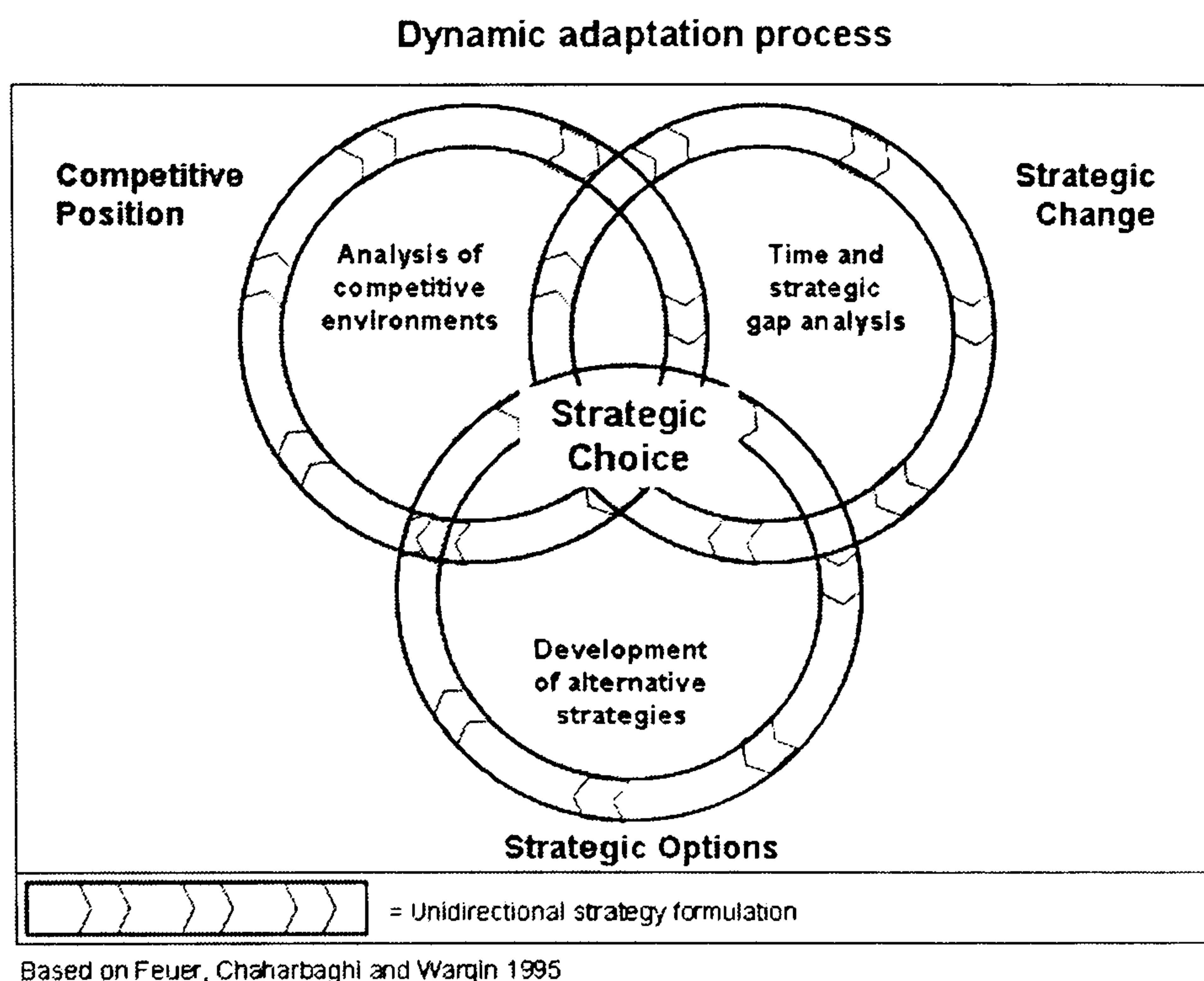


Figure 2.2: Dynamic adaptation process

There is now a growing cognisance that no single strategy process or single strategic capability will lead to a sustainable competitive advantage (Porter, 1991). Organisations are increasingly having to adjust dynamically their characteristics to the requirements of the environment by constantly changing their strategies and strategic capabilities (e.g. Brown & Eisenhardt, 1997; Bartlett & Ghoshal, 1998; Mintzberg, 1994). This change in the understanding of strategy formulation and implementation is also reflected in the increasing amount of research that is directed towards organisation learning (e.g. Garvin, 1993; Senge, 1990), the emergence of new organisation structures (Mintzberg *et al.*, 1998), the importance given to the redesign of business processes in the context of strategic change (Brown & Eisenhardt, 1997; Day *et al.*, 1997), and the role of managerial cognition in this process (Barr *et al.*, 1992; Lant *et al.*, 1992). As such, this section represents some of the key arguments of a recent school of thought that aims to develop an interdisciplinary view of strategy that captures the interplay between the company, the competitors and the larger environment (e.g. Brown & Eisenhardt, 1997; D'Aveni, 1994; Webb & Pettigrew, 1999). Before going into detail about dynamic strategy discussion we will outline some of the key arguments and premises that underlie this discussion.

2.3.1 The complexity of the external environment

The fundamental assumption of the dynamic approach is based on the argument that most firms operate in turbulent environments⁵ that have been described as ‘*hypercompetitive*’ (D'Aveni, 1994; Volberda, 1998), ‘*high velocity*’ (Brown & Eisenhardt, 1997), or shaped by ‘*jolts*’ (Meyer *et al.*, 1990). For example, a simple change in legislation may result in the demand or opportunity for new products or services, which may require the creation of new technology to deliver the product or service, and new people skills in area of development, design or delivery (Larsson *et al.*, 2001).

Researchers use (evolutionary) theories to develop an understanding about this chaotic or complex environment⁶ (Johnson & Burton, 1994; D'Aveni, 1994; Ilinitich *et al.*, 1996). Particularly chaos theory has a serious place in management, as it offers a plausible explanation of turbulence, and at the same time, a rationale for managing strategically in a turbulent environment. Chaos theory refers to the study of non-linear relationships that are interpreted as a process rather than a state of becoming rather than being (Gleick, 1987 p.5). Its importance to the dynamics of strategy is described by Mintzberg *et al* (1998) as ‘*it welcomes instability and seeks to create crisis as a means of transcending its limits*’ (p. 223).

Another contribution to put the turbulent business world into some perspective is made by quantum physicists who brought recognition to the concept of indeterminism (e.g. Rajagopalan *et al.*, 1993; Pettigrew, 1992). These authors argue that indeterminism permanently changes the perceptions of the nature of life and attitude to being and reality. The universe is seen as a web of related events. In organisational terms, this visualises much more relational interactions with all elements of the business environment indicating that context, content and process interact (Kauffman, 1995).

A third theory often used to explain turbulent environments is complexity theory. The study of complex systems is based on the assumption that there is more to a system than the sum of the components and the linkages that compose the system with truly emergent properties that irreducible to explanations that take into account only lower level components' properties (Cramer, 1993; Kauffman, 1995). A few simple rules guide the interaction between the components of a system. First, in a business context, managers should attend to relationships at all

⁵ The environment comprises the social, economic, political and legal activities that influence daily business operations.

levels within their organisations. The second rule is that small changes can have large effects (Kauffman, 1995). And third, interesting and unpredictable properties can be expected to emerge from a system (Holland, 1993). Complexity theorists argue that managers should allow creativity and efficiency to emerge naturally within organisations rather than imposing their own solutions on their employees. They can do this by setting some basic ground rules and then encouraging interactions or relationships among their employees so that solutions emerge from the bottom up.

2.3.2 The content, process, context interrelationship

As previously noted, strategies evolve in response to shifting macro-environmental and competitive contexts, so the organisations through which those strategies are to be delivered must themselves evolve and change. Researchers often recognised that firms need to align their strategies to environmental jolts (see Boyd, 1991 for an extensive review), however, only a limited number of studies have investigated the direct impact of environment on strategy decision making (Rajagopalan *et al.*, 1993). Most of the studies considered environmental influences only implicitly, as part of the context of the decision process. As such, most studies concentrate on strategy formulation processes and tend to ignore the implementation aspects of the strategy elements of the business environment indicating that context, content and process interact (Pettigrew, 1992).

The recognition of dynamism and the more recent adaptation of chaotic and complex theories into the management science has reinforced the case against formal strategic planning. Dynamic strategists argue that it is unlikely that an organisation structure developed under one set of conditions will be equally effective and appropriate under a different set of conditions (Miller 1986, Mintzberg 1990). An organisation confronted with turbulent environmental conditions must be in a continuous state of aligning itself to its environment. To do so, the organisation must demonstrate an understanding of the changing interrelationships of that environment and develop a dynamic view of itself and its world (Pettigrew, 1992).

The lack of the research that represents the interrelationship between content, process and context is often asserted to the complexity of multiple issues involved in the implementation process that can be attributed to the rapid changes in the business environment and incompatibility between skills and competences, organisational structure, and systems and processes in the organisation (Senge, 1990). In other words, a common assumption used by researches is that strategy

⁶ These authors describe complexity and chaos as nonlinear, aperiodic, and unpredictable

implementation is a straightforward process (Noble, 1999). However, it is now clear that as elements of the content tradition are asking more dynamic questions (Porter, 1991) and parts of the process tradition are more explicitly linking process themes to the time series analysis of strategy content and process (e.g. Brown & Eisenhardt, 1998; Pettigrew & Whipp, 1991), the sharp distinction between process and content appears to be more of an analytical hindrance than a help. It is therefore often suggested in the analysis of strategic change that there seem to be strong advantages to explore simultaneously the links between the context, content and process of change together with their interconnections through time (Pettigrew & Whipp, 1991).

2.3.3 Limited rationality

A third assumption adopted in the dynamic strategy literature is the argument against rational thinking. This argument is based on the notion that managers influence organisational change through the need to perform different tasks as required by the organisation and their environment (Tichy, 1983). In doing so, it is stressed that managers cognition and ‘mental models’ significantly impact the way in which information is processed and interpreted (Barr *et al.*, 1992). These interpretations of environmental events become the environment to which the organisation responds (Daft & Weick, 1984) and the mental framework within which strategic action and responses are developed (Weick, 1979). While the ability to identify environmental changes is necessary to manage for fit, it is argued that it is not sufficient. It should be accompanied by appropriate changes to the strategic choices and direction of the firm, following the models of organisational alignment (Venkatraman & Prescott, 1990). As such this notion is primarily based on arguments that can be linked back to behavioural studies of firms and individuals. Given the importance of these arguments for this study, we will discuss the studies of sensemaking (Weick, 1979), and inertia and heuristics (March & Simon, 1958; Nelson & Winter, 1982) in great depth in section 2.4 and 2.5.

2.3.4 Moving towards dynamic strategy development

Strategy researchers began to seek dynamic strategies that would be able to incorporate conditions of nonlinearity, ambiguity, and uncertainty in the 1970s (Cohen *et al.*, 1972; Mintzberg, 1979) and recently have attacked problems associated with complex dynamic systems (Liebeskind *et al.*, 1996; Hanssen-Bauer & Snow, 1996). Still, many important research issues are only now being articulated. The lack of a well-defined conceptual framework that presents managers with new tools and perspectives which accommodate the full dynamic complexity and uncertainty is clearly evident (Fowler, 2003). However, there are some notable attempts made to fill this gap.

2.3.4.1 Strategic fit

An early attempt to introduce dynamic complexity to strategy is made by Aldrich (1979) who was one of the first theorists who explicitly stated and popularised the concept of ‘*strategic fit*’ between the organisation and its environment. He examined this movement [organisational change] under three stages: variation, selection and retention. The general principle was that variation generates new material from which environmental selection was made, while retention mechanisms preserved the selected form. Aldrich (1979) pointed out the importance of environmental selection relative to intra-organisational factors as a critical difference between his model and the more traditional view of strategy formulation.

Though the literature shows that the question of strategic fit is an important one, it is manifest that little empirical evidence is available on how to fit the strategy taking the environmental conditions into account. After comprehensively reviewing the literature on strategic fit, Venkatraman (1989) concludes that there is a need for the development of appropriate mechanisms to test strategic fit. While one might expect such progress to be evident in a more recent study (Rajagopalan & Spreitzer, 1997) the authors draw the same conclusion and suggest that more research need to be done to predict and assess whether an organisations’ strategy will fit with changing environmental circumstances. The main reason why this call has not been answered yet is according to Zajac and Kraatz (2000) related to the fact that there is a tension between the environmental and organisational contingencies by searching for a fit between its strategy and environmental situation versus the fit between strategy and its unique competencies. Some authors suggest that this tension is amplified if one begins to conceptualise the strategic fit in more practical terms (e.g. Hamel & Prahalad, 1990), given that the desirability of changing strategy in response to changing environments becomes much more uncertain when it moves an organisation away from its traditional competencies (Ghemawat, 1991).

It is evident that strategy researchers who are more interested in strategic fit have tended to emphasise process over content issues, which is contrasting the viewpoint that the strategy focuses on content (Rajagopalan *et al.*, 1993). For example, Miles and Snow (1994) stop short of proposing specifically how the content of an organisation strategy should fit, or should be changed to fit, with its environmental context. This seems to be particularly important to understand when strategy is put into a marketing context. A similar suggestion is made by Thompson (1967) who points out that the importance of micro environmental variation as the main driver towards strategy adaptation in different markets. One of the main features that may

affect the propensity of adaptation is the competitive environment of a local area. Organisations often look to local competitors for cues regarding the appropriateness of potential strategic changes (Zajac & Kraatz, 2000). On the other hand, macro environmental factors, i.e. those that affect all organisations in all industries, can also affect the desirability of strategic change over time.

2.3.4.2 Interpretative model

Chaffee (1985) identifies three models of strategy, linear, adaptive and interpretive. She distinguishes the adaptive model from the linear model by asserting that the organisation must change with the environment rather than dealing with it. A more important statement towards dynamism is made with her interpretive strategy, which assumes that reality is socially constructed. In addition, strategists are suggested to deal with the environment and not with organisational action, but with symbolic actions and communication (Weick, 1979). This suggestion echoes the notion of Van Cauwenbergh and Cool (1982) who define the role of top management to '*secure the survival of the company in an increasingly turbulent environment and hence to animate and monitor strategic behaviour at lower levels*' (p. 253). Strategy from this interpretative model might therefore be defined as strategic schemas or frames of references that allow the organisation and its environment to be understood by organisational stakeholders (Bettis & Prahalad, 1995; Chaffee, 1985; Prahalad & Bettis, 1986). The most essential question for management becomes one of how to develop adequate strategic schemas that enable the firm to create or adapt to competitive change (Volberda, 1998).

2.3.4.3 Strategic intent

Hamel and Prahalad (1989; 1990; 1994) proposes the concept of '*strategic intent*' in order to deal with environmental dynamics. In complexity theory's terms, strategic intent is decomposition of exploration rules into the next level of detail, the linkages to the exploration rules and the transition rules that define how it will migrate from its current design and ecosystem to a future business design and ecosystem. Simply put, a strategic intent is a company's vision of what it wants to achieve in the long term based on imagining the future and creating it (Prahalad & Hamel, 1994). Underlying many of the concepts they introduce is the fundamental idea of the strategy process a purposefully created misfit between where the firm is and where it wants to be. With the concept of strategic intent Hamel and Prahalad make an important contribution that strategy should be defined to intercept the future. As such it represents one of the key studies that emphasises the view that organisational knowledge and learning are important sources of sustained performance in turbulent environments (see also for example Nonaka, 1991; Quinn,

1992; Nonaka, 1991; Quinn, 1992). However, their statements rest on a shaky foundation of foresight which often has been described as an illusion. As it is not possible to escape the view that the strategic intent presupposes a reasonably valid predictive view of the future, it appears to be appropriate to position strategic intent closer to the entrepreneurial school or even design school rather than the dynamic school.

2.3.4.3.1 Current debates on tools and perspectives

More recently, practical views have been adopted in order to provide managers with tools and perspective that answer questions such as ‘*What kind of strategy can achieve a dynamic adaptation?*’ (Brown & Eisenhardt, 1997), or ‘*How can managers develop their peripheral vision to sharpen their dynamic view of strategy?*’ (Day *et al.*, 1997). The first study of six computer firms argues against the notion of pushing for the best possible strategic fit between elements of environment, strategy, and organisation. Instead, Brown and Eisenhardt suggest a looser and broader coupling between the key elements, resulting in some form of semi-coherent strategic direction for the firm. One of the key ideas in this regard is for firms to focus on the present as the link between the past and the future. One application of this concept concerns the use of simple rules that permit adaptation while establishing bounds that can prevent companies from falling off the edge of chaos (Eisenhardt & Sull, 2001). In other words, the vision of successful firms in high-velocity environments must start out quite broadly, thereby allowing it to be shaped in part by subsequent events. ‘*Wharton on dynamic competitive strategy*’ (Day *et al.*, 1997) aims to detail this perspective by focussing on themes such as anticipating competitive response and understanding how both changes in technology and public policy impacts on both strategy and competitive advantage.

A key feature of these studies is the role of managers as a sensemaker who anticipate the behaviour of their competitors based on changes in the market. Strategies will be adopted as a result of key individuals recognising opportunities or threats in the firm’s environment and convincing others in the controlling dominant coalition of the accuracy of their interpretation and the appropriateness of the proposed response (McKelvey, 1997). This argument will be issue of debate in the next section.

On the other hand these studies point out that the formulation of a strategic dynamic response is significantly constrained as a result of internal and external barriers. In other words, implementation depends upon the ability of the dominant coalition to mobilise the required

resources. In an event of a change in the environment, the firm that first perceives and interprets this change and mobilises the appropriate resources will be the quickest to response. What limit the speed of response will be subject of section 2.5.

2.4 The sensemaking perspective

Sensemaking is defined as a process in which managers give meaning to events occurring inside and outside their organisation by noticing signals of uncertainty and arousal in their environment and extract and interpret these to make sense of it in their organisational world (Gioia & Chittipeddi, 1991). In this context, sensemaking is described by Weick (1995) as giving meaning to ideas, values, beliefs and past experiences held in knowledge structure. Situations⁷ of ambiguity and uncertainty serve as a sensemaking stimulant. Individuals search for evidence favouring one prospective meaning over others (Wagner & Gooding, 1997).

A significant role within this process is interpretation which according to Daft and Weick (1984) is the process of translating the event in order to develop models for understanding so that a conceptual meaning can be schemed among key managers within the firm. In other words, sensemaking is accomplished when the actors map words into models and models into words (Bauer & Johnson-Laird, 1993). This perspective of sensemaking reveals that it is the translation by the actor(s) of the social construct of reality (Berger & Luckmann, 1967).

The role of interpretation has led to some lack of clarity regarding sensemaking as a theoretical process. To illustrate, some researchers (e.g. Silvester *et al.*, 1999; Wagner & Gooding, 1997) use sensemaking as an adjective describing an attribution. Others (e.g. Gioia & Thomas, 1996; Thomas, 1993) use interpretations as a synonym for sensemaking. While accepting that both interpretation and attributional processes are a part of sensemaking, Weick (1995) posits that these approaches miss part of the larger picture. For example they fail to specify how the cues to which the individual is responding are singled out for attention from an ongoing flow of experience. He argues that problems do not present themselves as givens, but rather must be constructed from situations that are often puzzling, ambiguous and confusing. This points out that people do not always recognise situations as novel and think and act accordingly (Louis, 1980). Hence, sensemaking is more about the notion that although situations are progressively clarified, the clarification often works in reverse. In other words, rather than the outcome fulfilling some

⁷ A situation where two or more prospective meanings appear clearly applicable and equally valid

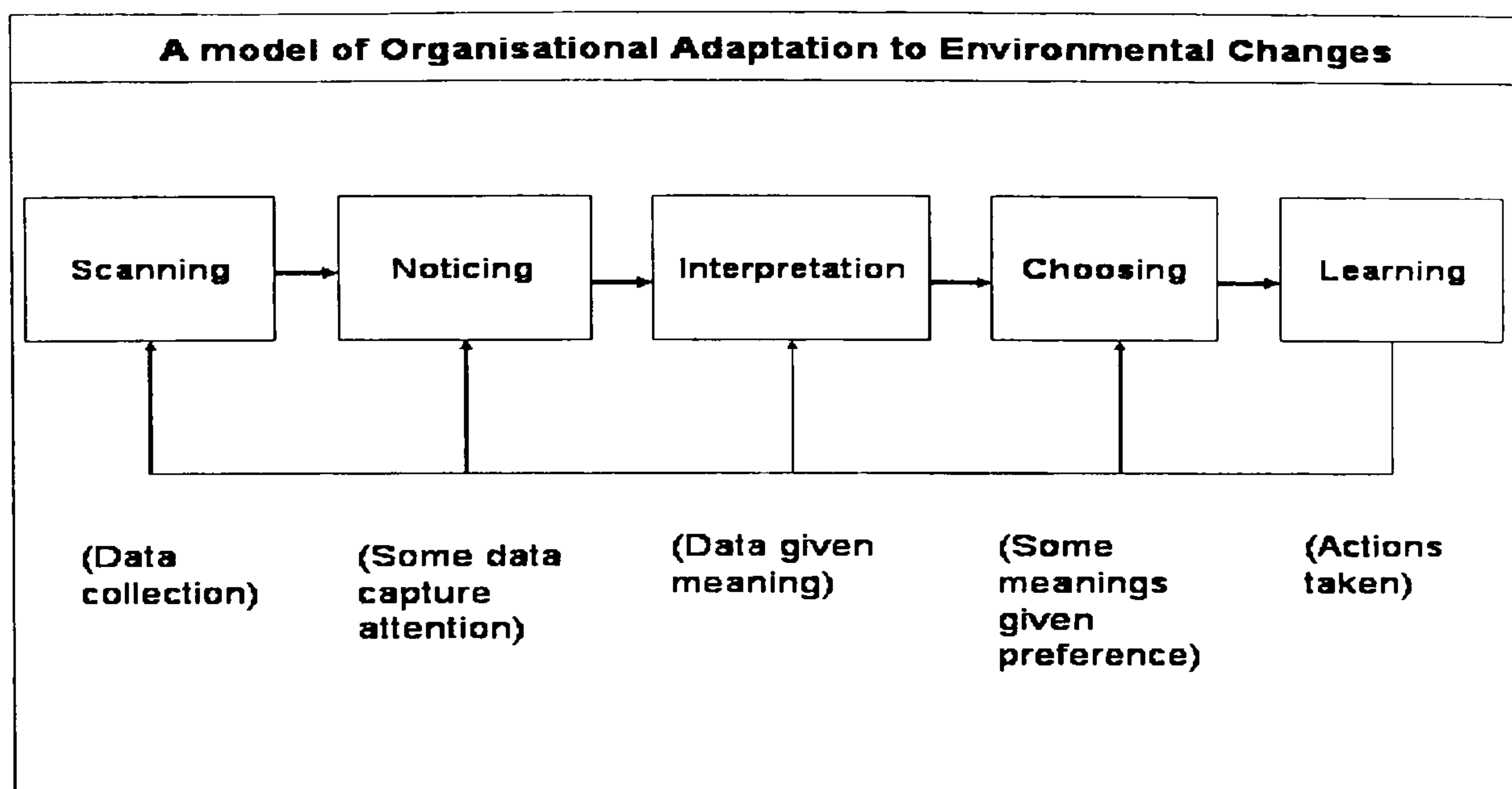
prior definition of the situation, it is more that the outcome develops that prior definition⁸ (Weick, 1995). From a behavioural point of view this implies that action may precede cognition, and cognition is shaped by the action or behaviour.

2.4.1 The sensemaking process

To engage in sensemaking is to construct, filter, frame and render the subjective into something more tangible. This process is often referred to as the sensemaking process (Weick, 1995). This process has been studied from an individual (e.g. Fiske, 1993) and from an organisation perspective (e.g. Lant *et al.*, 1992; Weick, 1995). Here we will combine both perspectives in order to discuss the role individuals play in the sensemaking processes of organisations.

Daft and Weick (1984) describe organisations as interpretation systems. This perspective assumes that each organisation responds to environmental changes. Understanding the timing and type of response the organisation will take to respond to environmental changes is based to what extent environmental changes are noticed, interpreted and transferred into actions (Anderson & Paine, 1975; Dutton & Duncan, 1987). So the central question that the sensemaking process aims to answer is when, why and how organisations change. These concepts are modelled by Daft and Weick (1984) into three stages and modified by Milliken *et al.* (1990) who added two stages. These stages are similar to Bayster and Ford's (1997) scanning interpretation and classification, Cowan's (1986) gestation, categorisation and diagnosis, or Kiesler and Sproull's (1982) noticing, interpreting and incorporating stimuli.

⁸ The notion that outcomes develop prior definitions of the situation has roots in cognitive dissonance theory (Festinger, 1957), which can be described as a negative drive state that occurs whenever an individual simultaneously holds two cognitions (i.e. ideas, beliefs or opinions).



Source: Milliken, Dutton and Beyer 1990

Figure 2.3: A model of organisational adaptation to environmental changes

Scanning involves the collection of data that provides the insight into relevant changes and events in the organisations environment (Daft & Weick, 1984). Noticing aims to emphasise that an environmental change or trend is only given attention to when it is perceived by the actors as an important issue, so the actors decide to put time and effort into the matter to understand it more fully (Milliken *et al.*, 1990). The next stage involves interpretation which involves trying to understand the potential impact of the event on the future performance of the organisation. At the stage of choosing a common importance is given to the event which is translated into a general understanding among the actors and a meaning of significance of the event is formulated. Based on this meaning questions are asked how to respond to the environmental change. The final stage of learning involves thinking and experimenting with alternative responses to the environmental change.⁹

2.4.1.1 Cognitive maps

When individuals are confronted with ambiguous events, they struggle to make sense of them. The meanings that individuals hold have been labelled schemata scripts (Gioia & Manz, 1985), cognitive maps (Porac *et al.*, 1989) and schemas (Polanyi & Prosch, 1975). The sensemaking process both draws upon cognitive maps as a guide for action and more importantly updates these

⁹ The actions taken depend on the formulation of the firm of the importance of the event. Hence responses might differentiate between no response and major structural changes or resource allocation patterns.

schemes in making sense of experience. Cognitive maps are dynamic¹⁰ knowledge structures used by the organisation to encode and decode incoming information efficiently and are generally conceptualised as subjective theories derived from one’s experiences about how the world operates (Miles & Snow, 1984). Table 2.2 illustrates the seven functions of cognitive maps as identified by Harris (Miles & Snow, 1984 p.310)

Table 2-2: The seven functions of cognitive maps

<u>Function</u>	<u>Description</u>
Structure	Provide a structure against which experience is mapped
Direct	Direct information encoding and retrieval from memory
Accurate	Affect the efficiency and speed of information processing
Guide	Guide ‘filling in the gaps’ in the available information
Template	Provide templates for problem solving
Facilitate	Facilitate the evaluation of experience
Anticipate	Facilitate anticipations of the future, goal setting, planning and goal execution.

The elements of the stimuli are imposed on the elements of the cognitive maps, which outlines the expectations within certain ranges of acceptability (Miles & Snow, 1984). The seven functions also suggest that if information is missing, default values may be inserted (anticipation), allowing the perceiver to go beyond the information given. This filling in of information offers a more complete perception than would otherwise be possible but increases the potential for making incorrect assumptions about the stimulus (Miles & Snow, 1984).

2.4.1.2 First and second order change

Within this schema Bartunek and Moch (1987) suggested that cognitive maps are becoming more complex over time as they may be expanded and elaborated as organisations incorporate new information. The authors labelled this time development as ‘fist order’ change. Furthermore, when the information or experience conflicts with the knowledge of an individual’s map, it will lead to either ignorance of new information or they will aim to cognitively recast to fit this information in the existing maps (Bartunek & Moch, 1987). This recasting has been labelled as

¹⁰ The argument that knowledge structures are not static but dynamic and modified by experience is also presented by Mintzberg (1994) who notes that, ‘...*real learning takes place at the interface of thought and action, as actors reflect on what they have done.*’(p.154). Hence, sensemaking about strategy combines intentions with realisation.

‘second order’ change. To illustrate, Fiske (Fiske, 1993 p. 182) argued that most people construct the meaning of their social environment well enough to enable effective actions; that is, their thinking is serving their doing. Within this reasoning there is limitation in accuracy.

2.4.2 Sensemaking underpinnings in strategy formulation

According to Weick (1995) special sensemaking occurs when the events become uncertain, and are therefore not longer interpretable. When uncertainty as a result of an event is noticed actors start to make sense in order to deal with the uncertainty. In other words, strategy formulation is essentially the making of sense of events and environmental changes during the conditions of uncertainty. Individuals cognitive maps during uncertainty facilitate answering the question ‘*What is happening?*’, which promotes the categorisation and identification of stimuli [*i.e. problem identification*] (Louis, 1980). It also helps to answer a second question; ‘*What should the organisation pay attention to?*’, which indicates the search for meaning [*i.e. problem definition*] (Miles & Snow, 1984). Gioia and Poole (1984) suggest that sensemaking in this situation can occur both consciously and relatively unconsciously. Unconscious processing requires little choice and is usually associated with familiar and routine experiences (Nelson & Winter, 1982). The degree of conscious processing required is primarily determined by the novelty of the experience and the demand for conscious reflective processing (Miles & Snow, 1984).

Given this viewpoint of strategy formulation, the role of sensemaking in strategy formulation is based on four long standing assumptions (e.g. Daft & Weick, 1984; Dutton & Duncan, 1987; Dutton & Jackson, 1987). First, activities of an organisation are determined in part by the interpretation of members of the organisation (Daft & Weick, 1984). Secondly, the interpretation of members is based upon an information sequence in which they attend to cues in the environment, give meaning to them and translate them into actions (e.g. Porac *et al.*, 1989; Gioia & Sims, 1986) Thirdly, meaning is seen as a problematic issue, whereby the actors are linking between received cues and cognitive structures (Van De Ven & Huber, 1990) . Finally, the actors are assumed to possess a reflective capability in order to present their interpretations of the event (Milliken *et al.*, 1990).

2.4.3 Collective belief systems: Organisational sensemaking

Based on sensemaking process we understand sensemaking as an integral part of the strategic process. The actions that are undertaken can be the result of either an individual or a group of actors that have formulated a strategy to deal with uncertainty. Framing from this point of view

refers to the data collection and the interpretation stage of the sensemaking process, which involves ideas, values, beliefs and past experiences held in knowledge structure influenced by the organisational environment (Weick, 1995). There is an extent to which the actors of the organisation see a possibility to analyse this environment, which in return influences the effort made by these actors to understand this environment (Weick, 1979).

The fundamental argument in this stream of thought is that individuals, and thus organisations, have limited information processing abilities. Once researchers accepted the argument that individuals are boundedly rational (Simon, 1955), then information search and the decisions based on the limitation of search and cognitive processing became interesting research questions. One can no longer assume that organisations in the same environment will behave in the same way (Cyert & March, 1963). This clearly influences the scanning behaviour of firms, which eventually will influence the interpretations made and the decisions taken (Lant, 1992).

This perspective will help to explain the interpretation differences between firms, and therefore the discussion will be continued from a broader organisational level, to further explore the role of the individual manager in this process. This discussion is being divided into three different dimensions to explain the interpretation differences of organisations. Two of these dimensions, analysability of the environment and the extent to which organisations intrude into the environment to understand it, are explained in more depth by Daft and Weick (1984). The third dimension is referring to the internal environment of the organisation that takes into account the capability and assets of the firm that might influence the future strategy (Van de Ven, 1992).

2.4.3.1 Organisational interpretation: analysability of the environment

As previously argued, differences in interpretation of organisations can be based on their notion of environmental change (Cyert & March, 1963). If managers assume that the environment is concrete than it is very likely that they will interpret this environment as analysable and therefore rational analysis takes place to develop a clear solution (Daft & Weick, 1984). The contrary is true when the organisation judges the environmental change as un-analysable. This situation occurs when the environment is interpreted as subjective or changing (Van de Ven, 1992). This initial viewpoint helps to explain the extent to which the firm intrudes the environment to understand it.

2.4.3.2 Organisational interpretation: intrusiveness of the environment

Following the above argument, there emerges a concern for how information from the environment is perceived and interpreted by organisations (Child, 1972). The second dimension that helps to explain the difference of interpretation is the extent to which the firm actively searches the environment to find a solution for their uncertainty. From this viewpoint two different type of firms can be described; the '*active*' and the '*passive*' organisation (Billings & Milburn, 1980; Weick, 1979). Although the term '*active organisations*' is not used by Daft and Weick (1984), the authors describe a '*test maker*' firm as one that actively searches the environment to learn and discover the opportunities for the firm. Many techniques are used in this respect such as monitoring (Billings & Milburn, 1980), forecasting and manipulation (Durand, 2003). Daft and Weick (1984) suggest that these firms might develop interpretations significantly different than those who behave in a more passive way. This type of organisation only uses the information that the environment directly gives to them. No active search is done to find out more about this environment and they do not engage in trial and error (Weick, 1979).

2.4.3.3 Organisational interpretation: Knowledge and resources

The third dimension takes a more historical developmental perspective, and focuses on previous activities, and stages that unfold over the duration of a central subject's existence (Van de Ven, 1992). From a multinational perspective this can be related to the existence of a global or regional market view, which has shaped their market approach in the past. This dimension therefore refers to the organisation's resources in terms of capabilities and assets, as a bundle of options for future strategic choice. In other words, the options the firm has to respond to changing market conditions depend on the existing knowledge and capacities of the firm as well as the available resources and how these resources are being used. From this perspective the existing resources are indicating if there are possibilities for a firm to respond to an environmental change.

However, it also indicates that the resources will only be used if environmental change is identified by the firm and interpreted as a significant issue. This identification process of the individual manager is influenced by its internal environment, which shaped by past and present processes and structures that frame the understanding of the group of actors (Weick, 1995). From this perspective, the sensemaking issue is interpreted as a prior strategic judgement issue that is based on historical structures and processes (Nelson & Winter, 1982). In other words, the interpretation of a group of actors about the potential impact of the Euro is significantly linked to the previous direction given to Europeanisation by the organisation. This direction is reflected into either first or second order structures and/or processes that explain the European

commitment. These elements refer to structures and/or processes that are self evidently linked to Europeanisation efforts such as a European Head office or European strategies. Moreover, European commitment might also be the result of less tangible issues such as centralisation of decisions or control of Head quarters. This issue of heuristics and inertia will be issue of debate in section 2.5.

2.4.4 Current research and criticism of the sensemaking approach

Although the functionalist perspectives have dominated organisational research, a sensemaking perspective has made significant headway (Drazin, 1999). Despite sensemaking processes having been cited for their substantial theoretical importance, relatively little empirical research has investigated the proposed internal linkages (Milliken, 1990). Sensemaking has been criticised for its lack of conceptual coherence (Thomas, 1993) and for having an underlying research methodology that is invisible, incomprehensible, illegitimate or impractical (Pfeffer 1994). The need for a more explicit research has often been called for (Orton, 1997). It is clear that a significant research agendas remains but as Van Maanen (1995) pointed out, there is already a considerable body of research based in sensemaking.

Particularly, sensemaking has been used to explain organisational phenomena such as problem sensing (Kiesler & Sproull, 1982), strategic management (Thomas, 1993), organisational change (Isabella, 1990) and strategic change initiation (Gioia & Thomas, 1996). Thomas and McDaniel (1990) studied the impact of top management team structure on interpretations. This was one of the first studies of managerial interpretations to examine the influence of contextual factors. Findings of this study showed that top management teams that were able to process large amounts of information were more likely to label strategic issues positively [*i.e. opportunities*]. Such team structures were also related to higher perceptions of control. Taken these two together, findings suggest that managers who are able to process information readily felt more in control over their environment, and thus, perceived strategic issues as possible opportunities for action, not threats. The strength of this study is that it points out that contextual factors play a critical role in determining how managers process information and interpret this information. These findings were confirmed by Milliken (1990) who studied the impact of environmental context as well as organisational context on managerial interpretations. She also suggests a high degree of complexity in interpretations.

Thomas (1993) were one of the first who aimed to combine some of these issues by investigating the strategic sensemaking process of scanning, interpretation and action as suggested by Milliken (1990) and how these activities are linked to organisational performance. The intention was to demonstrate the relationship between cognition and action. Findings demonstrated the complexity of linkages between these issues. The distinct contribution of their work is that it builds a theoretical meaningful framework from the historical body of thought about cognition and organisations.

Gioia and Thomas (1996) further investigated how top management teams in higher education institutions made sense of issues that affect strategic change in order to partly explain the complexity as found in previous studies (e.g. Milliken, 1990; Thomas, 1993). It was assumed that meaning was essentially a socially constructed phenomenon and the interpretation system was treated as a subjective framework of understand. Analysis of the qualitative data suggested that there were two dominating contextual influences on how top management teams made sense of issues important to the change effort, both of which were internal to the organisation. This led to a proposition that the perceptions of image and organisational identity partially mediated the relationship between sensemaking context and issue interpretation.

The above examples of sensemaking provide an indication of key empirical studies in the information processing tradition of which some important lessons can be learned. First, the extension of individual information processing to information processing in organisational settings is a complex process. Second, managerial cognition appears to be influenced by contextual factors. Thirdly, information processing capability tends to influence perception of control and in turn the way this information is interpreted. And fourth, associations among cognition, organisational action and environmental change appear to exist, though the findings so far are tentative. This issues are confirmed by Weick (1995 p. 173), who, following a review of diverse literature in the area of sensemaking, suggested that the majority of studies shared several characteristics such as; Investigators make an effort to preserve action that is situated in context; Participants' texts are central.; participants define the work environment; and findings are described in terms of patterns rather than hypotheses.

Despite this consistency, many issues remain unsolved. Particularly the issue of '*how individual cognition combines to produce collective cognition in organisations?*' seems to be of great interest (e.g. Mezias & Glynn, 1993; Lant, 1999). The adaptive sensemaking perspective

suggested by Bogner and Barr (2000) is one of the few frameworks that move us towards studies of cognition that highlight the dynamic interaction among actors, as opposed to the static content of their minds. Bogner and Barr argue that in hypercompetitive environments the cognitive framework developed by managers focuses on process rather than content. That is, managers come to know their environments through dynamic interactions with other actors in the context of certain events. This collective knowledge generation indicates an understanding of how the environment will influence the competitive actions of firms. Although this study is useful in its own right, it does not solve the problem how to study the process. Key issues of interest remain the way in which the human mind is embedded in and shaped by social context, and the nature of collective actions and beliefs (Porac *et al.*, 2002).

2.5 The discontinuous change perspective

According to advocates of the dynamic adaptation perspective, it is a common misperception that organisations develop from one state to the next, encountering minimal friction. In reality, they argue, organisational adaptation to a changing environment is arduous and encounters significant resistance (Brown & Eisenhardt, 1997; Bartlett & Ghoshal, 1998; Mintzberg, 1994). Proponents of this perspective advocate that people and organisations are both source for a reluctance to change. An important argument of this discussion is the existence of heuristic devices, that is, any principle or device that contributes to the reduction in the average search of solution (Newell *et al.*, 1962 p. 85). These heuristic devices are in the current literature divided into cognitive heuristics, and organisational heuristics. The former refers to reductionism and relies on the primacy of individuals in cognitive activity, the latter refers to contextualism and relies on the primacy of the organisation context within which individuals reside when taking decisions. Heuristic devices, whether managerially or structurally located, tend to sediment and dominate perceptions of strategic options that inhibit learning (e.g. Argyris & Schön, 1978; Bettis & Prahalad, 1995). This can lead to cognitive biases that impair the ability to select optimal choices (Barnes, 1984). In this section we will discuss both views in order to explain how the rationality of decision makers is systematically influenced.

2.5.1 Reductionism: cognitive limitations

Cognitive organisational theorists assume that an individual's behaviour toward external stimuli is mediated by his or her cognitive representations of those stimuli. As previously argued in the sensemaking section it is suggested that mental models of managers shape their environmental scanning proclivities (Daft & Weick, 1984), implying that this will influence what they do and do

not notice about the environment (Starbuck & Milliken, 1988), which will eventually affect their interpretations of environmental opportunities and threats (Dutton & Duncan, 1987). Given the organisations enactment with its environment (Weick, 1995), the reductionism literature extents this argument further by arguing that mental models of organisational participants actively shape the environmental space in which organisations exist (e.g. Porac & Rosa, 1996; Porac *et al.*, 2002). It is argued that this is done by making extensive use of mental shortcuts that simplify the problem so that it can be more quickly understood and solved (Porac & Rosa, 1996). In other words, cognitive heuristics focus an organisational participant's view of a number of key variables that are believed to be most important, in order to rapidly resolve an issue.

This viewpoint has clearly been adapted to research at the interorganisational level as researchers continue to recognise and emphasise the critical role of cognitive representations in the dynamics of the organisation (e.g. Burnes *et al.*, 2003; Holmqvist, 2003). From a strategy formulation point of view there has been an upsurge of interest in cognitive analysis of competitive positioning (e.g. Dess & Davis, 1984; Porac & Thomas, 1994; Reger & Huff, 1993). Central to this stream of work is the premise that actors, both individually and collectively, form simplified representations of their competitive worlds and that these define the boundaries of the competitive arenas in which firms compete. According to this body of literature, over time, strategists from rival firms develop highly similar mental models of the competitive arena due to the fact that they frequently exchange information during the conduct of business transactions.

According to Krabuanrat and Phelps (1998) these individual causes of cognitive bias can be categorised as follows (p. 85);

Table 2-3: Generic types of cognitive heuristics

<u>Function</u>	<u>Description</u>
Simplification	Intentionally ignoring aspects of the decision in order to reduce the cognitive load
Reference to past cases	Identifying similar past cases and using their decision outcomes as guides
Imitation	Identifying similar decisions taken by other organisations and adopting them
Risk aversion	Searching for specified types of risk, carrying out small-scale experiments, relating to recent or high profile failure cases
Satisfying	Searching for an acceptable solution rather than the optimal one, only generating alternatives if the first possibility is rejected
Cooperation	Pooling knowledge, sharing risk with competitors, customers, suppliers

2.5.1.1 Resistance to change

The above discussion of cognitive heuristics points out that individuals focus attention on only a few variables and interpret them in a particular way, even when this is not appropriate to the problem (Tversky & Kahneman, 1986). Another problem that limits the rationality of decision makers is rigidity, which refers to the issue that people are not inclined to change their mind (Mauer, 1996).

Resistance to change, arguably a phenomenon on its own within organisational change, has received considerable attention since the early 1980s due to the failure of many organisational change strategies. Many reasons for change resistance are suggested, and generally focus on confusion, immediate criticism, denial, malicious compliance, sabotage, easy agreement, deflection, silence and in-your-face criticism (Mauer, 1996 p.26). Taken from the perspective of Dent et al. (1999), these elements can all prove excellent indicators of flaws in the change strategy or process being implemented. Managing and recognising resistance is therefore a major component of any successful change process. If viewed from as a response to change, and not a naturally forming component, resistance can be effectively used as an ongoing assessment of change implementation across the whole organisation (Dent & Goldberg, 1999).

2.5.2 Contextualism: Organisational heuristics causing cognitive bias

Organisational heuristics focus on the existence of inertial forces¹¹ that are built in firms over time (Huff *et al.*, 1992). Historical steps taken by the organisation influence the interpretative schema (Bartunek, 1984; Bettis & Prahalad, 1995; Daft & Weick, 1984), affecting their enactment-selection-retention patterns (Weick, 1979) which are leading to different information processing behaviour (Gioia & Thomas, 1996; Thomas, 1993). Inertial forces act as managerial and strategic heuristics important to the effectiveness of the firm. Heuristics may be from this point of view conceptualised as recurrent action patterns which Clark (2000 p. 240) described as patterns that contain the history specific and firm specific idiosyncratic elements.

Although, organisational roles are not determinative of individual behaviour, they are nevertheless critical for understanding how individuals embedded within organisations think. As Simon (1996) writes, *‘human learning in the context of an organisation is very much influenced by organisations, has consequences for the organisation, and produces phenomena at the organisational level that go beyond anything we could infer simply by observing learning processes in isolated individuals’* (p. 176). The organisation is a role system of prescribed decision premises that tell members how to reason about problems, where to look for information, and what sort of techniques to use.

2.5.2.1 Belief lock-in and Path of (context) dependency

The basic assertion of the above argument is that strategies can become locked in as firm standards, creating a *‘path of dependency’* of initial strategic solutions (David, 1985). This in turn might cause inefficiencies that may persist for extended periods of time (Arthur, 1989). It is therefore argued that the past does not exist entirely independent of the present, but that it lives on in the present, and that historical thoughts, actions and processes may be re-enacted or reconstructed by the organisational actor as these create the filter for current perceptions. Thus, path dependency implies the notion that firms’ decisions and actions open up future choices regarding products, markets, and technologies (David, 1985). By making specific investment decisions, or by developing specific product or market knowledge, or by establishing a repertoire

¹¹ The concept of inertia implies the property of elements within the system to naturally maintain their current state over time. Hence, state can only be changed incrementally over a period of time, as a result of an imbalance between the forces acting on particular elements of the system (Brown & Eisenhardt, 1997).

of specific routines, firms and other actors limit and structure the possibilities of future actions open to them¹² (Cohen *et al.*, 1996; Teece *et al.*, 1997).

Although the existence and importance of history dependency has been challenged (Liebowitz & Margolis, 1995) the concept of path dependence has become firmly established in the literatures of technological change and strategy (Teece *et al.*, 1997). It is particularly argued that path of dependence leads to inertia as routines avoid organisational actors to find optimal solutions. In this context Feldman (2000) underlined that the path of dependency contributes to both stability and change, and indeed establishes an important part of the organisational flexibility (see also Feldman & Rafaeli, 2002; Volberda, 1998). Empirical findings support the argument that routines provide organisational actors with a degree of stability¹³ that gives directions to recurring activities. However, there is also evidence that routines provide individuals with particular cognitive resources and mental maps that will limit the choice of action suggesting that routines are context-dependent, embedded and specific, and are difficult to replace (Jarzabkowski and Wilson 2002; Karim and Mitchell 2000).

2.5.3 Internal inertia to change

The above discussion provides us with the notion that the path of dependency to some extent pre-determines the strategic development within an organisation as it influences the actor's perception of (Westney, 1990) events¹⁴. In this section we wish to extend this argument by reviewing the debate on the 'inside/out' approach which argues that '*strategic choices are directly determined by the condition of the structure*' (Hall & Saias, 1980 p. 153).

An important argument of this 'inside/out' approach is put forward in the internal inertia literature. Internal inertia refers to the organisational tendency to maintain its internal structure regardless of other factors or concerns (Hannan & Freeman, 1989). It denotes the inability of an organisation to adapt to its environment. Thus, it is suggested that an organisation operating in a dynamic and changing environment, whose organisational functions do not correspondingly change will experience forces of inertia. The stronger this inertia, the lower the organisational

¹² This process is sometimes described as belief lock in (Arthur, 1989)

¹³ Technology seems to be one of the drivers of the stability of routines as organisations develop routines around the use of existing technologies (David, 1985). Another driver of stability is the connection that organisational routines establish between people (Feldman & Rafaeli, 2002).

¹⁴ Hall and Saias (1980) refer to this process as the 'outside/in' approach which refers in their view to the notion that perceptions are influenced by the structural element of the diagnosis

flexibility and the more likely the organisation will experience difficulty to adapt to the changes in the environment (Hannan, 1998).

2.5.3.1 Flexible- and slack resources

The idea that decisions are characterised by organisational routines or heuristics (Nelson & Winter, 1982) has been amplified in the RBV literature. As previously argued, the RBV recognises the nature of importance of resources and capabilities for the sustainability of the competitive advantage(s) of the firm (Teece *et al.*, 1997) as they can yield advantage when they are relatively scarce, hard to imitate, and hard to replace (Mahoney & Pandian, 1992; Peteraf, 1993). An important relationship made in this context is that firm performance is based on firm internal resources (Powell, 1992). This also suggests that the flexibility of current resources and the capability¹⁵ to apply these resources refers to the firms' ability to respond to environmental changes (Prahalad & Hamel, 1990; Volberda, 1998).

The concept of flexibility is closely related to that of organisational slack which refers to '*the difference between potential and actual performance*' (Cyert & March, 1963 p. 36). Also slack has been more broadly considered as a 'cushion of actual or potential resources' (Bourgeois , 1981). Slack resources are the outcome of the firm's strategic behaviour and can be used for the development of new actions (Cyert & March, 1963). In other words, the existence of slack resources is a necessary condition for adaptation to environmental changes and firm development.

2.5.3.2 Resource alteration

In relation to existing resources it is often argued that the probability of an organisation significantly changing a core feature is most likely to be low (Hannan & Freeman, 1989). According to Hannan (1998), organisations have restricted capacity for significantly altering any of their core functions. Hannan (1998) indicates that when core functions are established by early organisational decisions and resist future change or adaptation to environmental change, fit between the organisation and its environment erodes. In essence, the firm uses its historical practices to navigate through changes in the environment. Core organisational features include forms of authority, core technology, and market strategy (Baum & Amburgey, 2002) can be interpreted as a guide for this navigation. What this implies is that internal inertia theory suggests that the processes of change create internal re-organisation problems (Hannan & Freeman, 1989).

¹⁵ Firms may start with a similar resource base, but over time they become differentiated in such a way that these resources cannot be perfectly imitated by others because of limitations in managerial perceptions.

2.5.3.3 Empirical research on internal inertia

Empirical research in this vein has also stressed that organisations prefer to retain established ways of thinking and acting, especially if there is no direct pressure for change. Miller (1994) argues in his study of how past performance influences the way a firm evolves, makes decisions, and adapts to its environment that firms are likely to (1) exhibit inertia in many aspects of structure and strategy-making processes; (2) adopt extreme process orientations; (3) reduce intelligence gathering and information processing activity; and demonstrate insularity by failing to adapt to changes in the environment. A similar study of Sull (1999) demonstrates that the causes of failure of adaptation can be devoted to four inertial forces: (1) strategic frames [*the set of assumptions that determine how managers view business*]; (2) processes [*the way things are done*]; (3) relationships [*internal and external*]; and values [*the set of shared beliefs that determine corporate culture*].

In this literature review we discussed Miller's (1994) second and third issue, and Sull's (1999) first and forth issue as part of the sensemaking process. In the following section we will pay particular attention to the other suggestions made by Miller and Sull that refer to organisational design issues that influence the strategy making processes (Hall & Saias, 1980).

2.5.4 Key determinants of internal inertia

The above discussion on contextualism and internal inertia, more particularly highlights the double nature of organisational routines: routines do not only represent problem-solving procedures, but are at the same time control devices. In other words, routines provide an organisation with a certain capability to control, combine, coordinate and integrate, different skills and capabilities, and different activities (Chandler, 1962). One can speak here of "combinative capabilities" (Kogut & Zander, 1992), "integration capability", or "architectural competencies" (Henderson & Cockburn, 1994). Thus, the organisational capability to respond belongs to the whole organisational structure, it depends on the coordination patterns existing between organisation's members, and notably on the development of common codes (Cohen *et al.*, 1996), on common rules and representations, as well as on "theories of action" that are specific to a firm (Argyris & Schön, 1996).

Since Chandler's (1962) claimed that structure follows strategy, much research has paid attention to the causal order between strategy and structure¹⁶. In spite of the widespread acceptance of Chandler's statement that structure follows strategy (e.g. Hamilton & Shergill, 1993; Mintzberg, 1979) there is a parallel body of literature that suggests that there is a major effect from structure to strategy (Fredrickson, 1986; Miller, 1994). Particularly organisation theorists argue that strategy follows structure due to the constraints imposed by the latter on the strategic decision process and management's available options (Bower, 1970; Child, 1972; 1997). This argument has been widely adapted in the strategic decision making theory where it is proposed that decision makers' cognitions are motivated and constrained by their business environment, organisation structures, and resources, as well as their personal experiences and perceptions (Baum & Wally, 2003). Fredrickson (1986 p. 286) argues that an organisation's structure may have important deterministic effects on its own, and states that these effects have neither been widely recognised nor investigated.

Based on the limited available literature on the effect of organisational structure on the decision making environment, we will extend the debate by exploring the key issues that act as a potential barrier to respond as suggested by several authors (e.g. Bower, 1970; Child, 1972; Eisenhardt & Bourgeois, 1988; Fredrickson, 1986; Hall & Saias, 1980) (see figure 2.3). Then again, it is not our ambition here to review all the internal inertia issues that might play a role in strategy development; instead we wish to focus on three key aspects. We will look at aspects that can be related to the way knowledge is disseminated within an organisation, which is closely related to the distribution of power [informal structure], and to its hierarchical structure [formal structure]¹⁷. The aspects involved are structural form, coordination and control [management style]. According to Mintzberg (Mintzberg, 1979 p. 11) the formal and informal structures are intertwined and often indistinguishable and should therefore be researched [discussed] in combination. Given the focus of this study, these aspects are reviewed from an international, MNE, perspective, which particularly draws the attention to the centralisation versus decentralisation debate and the role of

¹⁶ This claim has led an interesting debate with researchers who supported the statement and those who have overturned his contention (Bower, 1970; Rumelt, 1974; Mintzberg, 1979). While Chandler's claim was widely accepted since, theoretical arguments have suggested that major changes in the structure are unlikely, or are very slow in coming because of inertia (Miller & Friesen, 1980; Mintzberg, 1979; Quinn, 1980). In a similar argument, Tushman and Romanelli (1985) suggested that over time, strategic processes '*become routinised, commitment to established practices increases as groups become more rigid in their behaviour patterns and decrease both the volume and diversity of information processed*' (p. 192).

¹⁷ The distinction between formal and informal structure is made by Mintzberg (1979, p.11) to emphasise the differences between the visible part of structure (i.e. the boxes and lines) and the less visible processes of coordination and integration

subsidiaries within MNE's. In addition, we will briefly review technology as a barrier to strategic response.

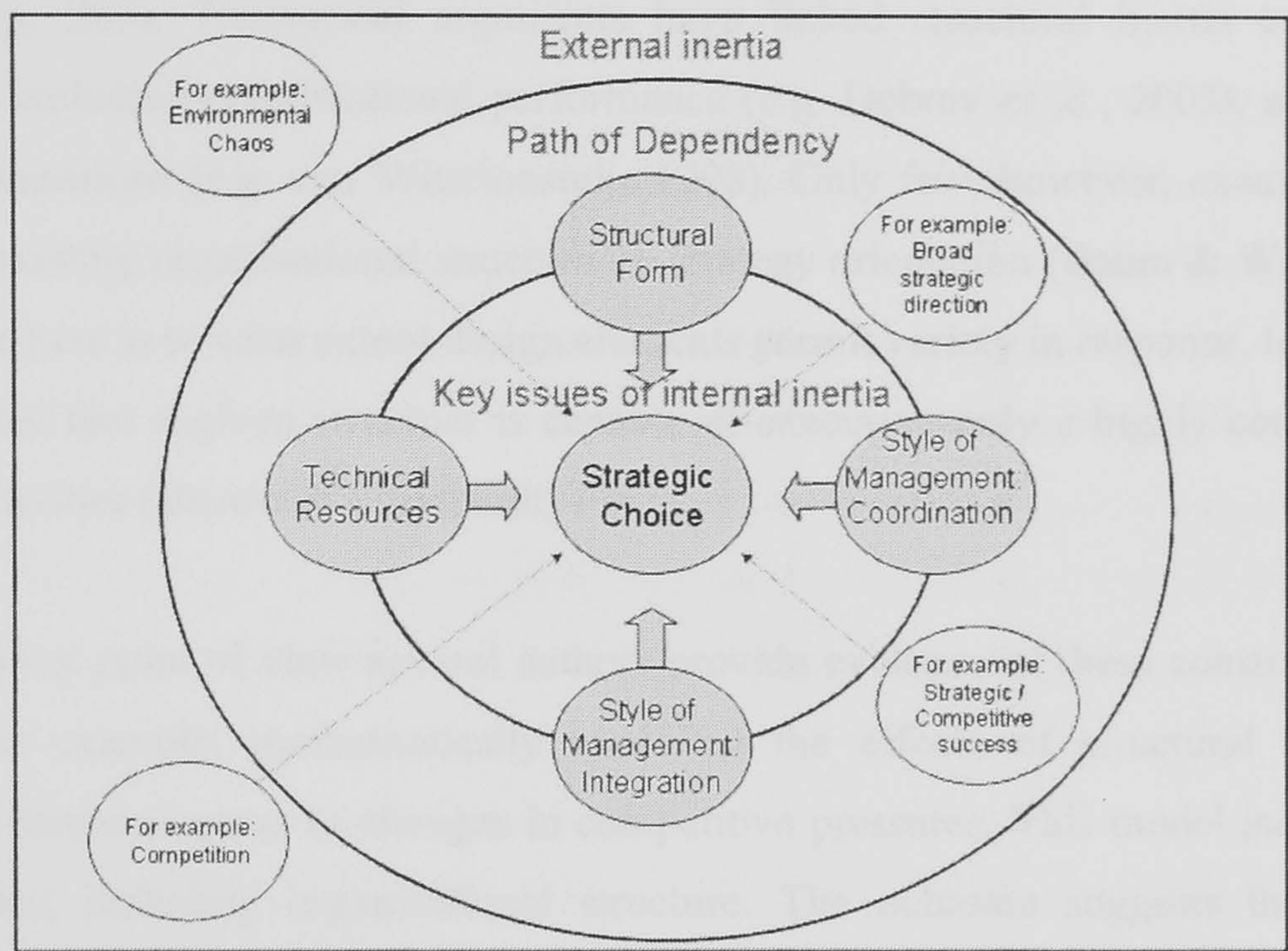


Figure 2.4: Key elements causing internal inertia

2.5.4.1 Structural form

Organisations structure has been defined by Khandwalla (1977) as ‘the network of durable and formally sanctioned organisational arrangements and relationships’ (p. 482). Organisations structure provides a way for the organisation to coordinate its activities and establish and pursue common goals despite diversity among individual members. As such it reflects the actual distribution of responsibilities and authority among the organisations personnel (Fredrickson, 1986). The flexibility of this distribution¹⁸ reveals the efficiency and effectiveness of the firm when adapting to other mutual relationships (Volberda, 1998). For example, formalised organisation structures are characterised by explicitly articulated and written firm policies, organisation charts, strategic plans, and objective setting systems. In highly formalised systems, little flexibility exists to determine who may decide or act or even how to decide or act (Volberda, 1998).

This implies that the organisational design and its related structure [have the potential to] influence the ability of organisations to respond to changes in their environment (e.g. Edstrom &

Galbraith, 1977; Hannan & Freeman, 1989). This link is also apparent in Bower's (1970) comment that *'when management chooses a particular organisation structure, it is providing not only a framework for current operations but also the channels along which strategic information will flow...'* (p. 287). Theoretical arguments have linked structural inertia to a variety of consequences, including organisational performance (e.g. Dobrev *et al.*, 2003), and the rates of failure of organisations (e.g. van Witteloostuijn, 1998). Only few, however, examined the direct effects of the existing organisational structure on strategy orientation (Baum & Wally, 2003). An important issue here is to what extent design elements permit variety in response. In this context it is often assumed that a given structure is capable of executing only a highly constrained set of competitive activities (Brown & Eisenhardt, 1997).

From an empirical point of view several authors provide evidence of these constraints. Gresov *et al.* (1993), for example, mathematically modelled the effects of structural inertia on the organisation's responsiveness to changes in competitive pressures. This model includes fourteen design variables, including organisational structure. The outcome suggests that the process followed in implementing change can influence not only the perception of change, but also the involvement of those affected and the sequencing of change enhancing activities. Similarly, Huff *et al.* (1993) mathematically develop and simulate how organisations renew their strategic direction. This model details the nature of this evolutionary process by simulating alternative renewal paths and exploring the interaction of the cumulative stress and inertia that naturally develop in organisations over time. Findings suggest that the beginning levels structural inertia have a long-term bearing on the length of time it persists with its current strategy.

2.5.4.2 Coordination and control

Despite the fact that few explicitly study the extent to which and in what way structural design elements influence the strategic response constraints, much has been said about how the organisational context characterises the managerial perceptions (e.g. Denison & Dutton, 1996; Ginsberg & Venkatraman, 1992; Meyer, 1982; Thomas, 1993). This organisational information processing perspective implicitly posits that increasing the flow of information within and between organisations will enhance environmental awareness, which eventually will influence the strategic response to change (Kuvaas, 2002). This notion shifts the debate towards the

¹⁸ Often reflected in construction of an organisational form that is made of various parts such as functions, units, divisions and so forth.

information-processing approach¹⁹ (e.g. Egelhoff, 1982) and addresses issues such as information availability, information sharing, and the value of information that can be linked to the goodness of fit between strategy and structure (Hannan & Freeman, 1989).

The conceptual underpinning of this information processing approach has been often used to explain elements that influence the information (knowledge) flow in MNE's (e.g. Birkinshaw *et al.*, 2002; Egelhoff, 1982; Wolf & Egelhoff, 2002). Some key elements of influence mentioned in this context are organisational form (Egelhoff, 1988), technological complexity (available resources) (Wolf & Egelhoff, 2002), size and age of network (Stopford & Wells, 1972), centralisation/autonomy (Hedlund, 1981), and network integration (Lawrence & Lorsch, 1967). In the following discussion we will briefly outline centralisation, network integration, and technological resources as potential barriers to strategic response.

2.5.4.2.1 Centralisation versus autonomy

Centralisation refers to the concentration of authority and power in a firm (Jung & Avolio, 1999). The more centralised, the less widespread is decision making power with regard to policy²⁰ and task performance (Covin & Slevin, 1994). Centralisation stresses the fact that knowledge is distributed among a large number of individuals, and that the main economic problem is to ensure the coordination of individuals holding different and complementary specialised knowledge. In other words, concentrated power arrangements tend to prevent imaginative solutions to problems since centralised decision making often translates into processes that run counter to the requirements of a creative environment (Deal & Kennedy, 1982). This notion is confirmed by Zaltman (1986) who found that less formalised organisations could acquire knowledge more easily than their more structured competitors. Similarly, Slater and Narver (1995) emphasise the constraining role of centralisation which give responsibility to individuals with hierarchical power rather than to the experts in a particular field. On the other hand, reductions in centralisation have been associated with growing uncertainty (Davis & Morris, 1991), or as Caruana *et al.* (1998) report, environmental turbulence can lead to more formalisation in decision making.

The concept of centralisation has received much attention in the MNE context with a particular interest in the location of decision-making since the early seventies (Picard, 1977). As such, most

¹⁹ The information processing approach calls for translating strategic conditions and organisational structure into information-processing requirements and information processing capacity

²⁰ Centralisation takes place through formalisation of rules and regulations, as well as organisations effort to enforce those rules

of the research attention has focused upon the factors inherent to companies and subsidiaries that are affecting the level and scope of autonomy granted by the HQ. Within this debate, three different stages of interest can be defined. First includes Gates and Egelhoff (1986) attempt to reconcile the inconsistent results by retesting the contingency variables related to company size, complexity and environmental change previously investigated in the MNE context. The second group continues this research and focuses more on the consistency between marketing practices and decision making. In this context researchers found a consistent relation between standardisation and the centralisation of decision making in MNEs (e.g. Krum & Rau, 1993; Shoham, 1995). Also as a result of the emerged research interests into this topic a third group of researchers concentrates more on the process mechanisms [*i.e. coordination, personnel integration, hierarchical control, etc.*] used by MNE to achieve integration of their activities across markets (e.g. Birkinshaw & Morrison, 1995).

Particularly with the later view on process mechanisms, international management research has increasingly moved towards viewing the MNE as an interorganisational network of geographically dispersed and differentiated units (Bartlett & Ghoshal, 1989; Bartlett & Ghoshal, 1990), whose core competence lies in the ability to exploit resources, especially knowledge, more efficiently internally than would be possible through external market mechanisms (Zander & Kogut, 1995). This view emphasises that MNEs' competitive advantage is fundamentally based on how efficiently they share knowledge across units, as managers might face constraints based on the information they receive (Gupta & Govindarajan, 1991; Grant, 1996).

2.5.4.2.2 Network integration

In exploring this issue, the potentially significant role of subsidiaries has been increasingly acknowledged (e.g. Birkinshaw, 1996; Birkinshaw & Hood, 1998). Research in this vein has explored characteristics of different subsidiary roles (e.g. Bartlett & Ghoshal, 1986; 1989; Hedlund & Rolander, 1990), as well as some aspects of subsidiary resources (Etemad & Dulude, 1986; Birkinshaw *et al.*, 1998). A range of barriers to knowledge transfer²¹ has also been uncovered, including motivational factors associated with both the HQ and the subsidiary (Gupta and Govindarajan 2000; Szulanski 1996). In this context network integration²² has forcefully been

²¹ We refer here to the knowledge that exists in the form of 'know-how' (Gupta, 2000) that can be related to procedural types of knowledge that largely influences [coordinate] the decision making of network members

²² Prahalad and Doz were the first to use the term 'integration' in the international strategic context. From their point of view integration refers to '*the centralised management of geographically dispersed activities on an ongoing basis...in response to pressures to reduce costs and optimise investment*' (1987 p.14-15). In

argued to be an important prerequisite for such behaviour to occur (Bartlett & Ghoshal, 1986; Nohria & Ghoshal, 1994; Prahalad & Doz, 1987).

The degree of network integration that occurs is the result of the MNE of the overall corporate strategy and how the function of the subsidiary can be allocated in order to contribute to the MNE goals. Retaining control at HQ level increases a MNE's efficiency in implementing corporate strategy. In this context, scholars widely agree that retention largely takes place through network integration which associates management compensation criteria that balance country and business accountability with global contribution (see Doz & Prahalad, 1991) as well as the previous discussed implementation of consistency of corporate vision that unites affiliates around a common purpose (Bartlett & Ghoshal, 1989).

A degree of autonomy to local affiliates, on the other hand, expands the flexibility needed to cope with unexpected problems or react positively to unexpected opportunities (Doz & Prahalad, 1981; 1984). The degree of local freedom possessed by any subsidiary may also be a function of the influence that HQ can bring to bear, which may depend critically on resource dependency relationships and the comparative importance of the subsidiary within the network (Doz & Prahalad, 1991; Martinez & Jarillo, 1989; Martinez & Ricks, 1989). The extent to which network integration and centralisation act as a barrier is based on the pressure the change in the business environment will have on this internal arrangements (Hannan & Freeman, 1989).

2.5.4.3 Technological capabilities

As mentioned above, a significant element of inertial pressure is the dependency of subsidiaries on technological capabilities. These capabilities may be defined as: '*the ability to design and develop new products and processes and to operate facilities effectively*' (Dosi *et al.*, 1992). Building on from this definition, Volberda (1998) separates technological capability into hardware [*i.e. machinery, manufacturing*] and software [*i.e. knowledge, skills, techniques*]. Dependency therefore refers to the control of these capabilities by others, including the ability to configure existing capabilities. The extent to which technological capabilities act as an inertial device is therefore related to the choice of process or the mode²³ of production available.

the context of internal inertia within multinationals it seems important to also take into account that integration also refers to the extent to which firms combine dispersed or non-dispersed activities that operate at an international level.

²³ Some indicators that influence the mode (i.e. mass production versus single country production) of production are: throughput volume, variability of production capacity, the range of raw material/data used, the range of products produced (often referred to as technological complexity)

The choice process from this point of view refers to the way in which the organisation chooses the development, acquisition, and application of technology within the multinational. To achieve this process of technology transfer, the identification and the application of appropriate transfer mechanisms must be invoked. This process does not only refer to the technological capability, but also to the decision to apply that technology locally to satisfy the needs. It are often these needs that lead to change of imported technology, creation of new technology or the development of indigenous technology. One of the issues influencing the choice of technological adaptation is the available production set in terms of capacity, technology, and raw materials (Granstrand *et al.*, 1989). In other words, the possibilities for combining technologies in order to standardise products limits or expands the strategic choice (and control) of firms. This notion is confirmed empirically by Jaffe (1989) who found that the extent to which market opportunities can be utilised varies systematically due to technological limitations.

The above discussion points out that technological and managerial capability are closely related. This relationship has often been topic of debate in the innovation literature. There is a general consensus among theorists in this field of organisation innovativeness that higher degrees of centralisation influence innovation in a negative way because together they concentrate decision making, hindering the ability of members of the organisation to participate in more depth (Webb & Pettigrew, 1999). In other words, a continued dependence on joint development may deter managers from developing their own firm capabilities, allowing local competitors to develop more appropriate competitive skills (Hamel *et al.*, 1989). Damanpour (1991) confirms this negative relationship; however, he also argues that the implementation of innovation requires a higher degree of centralisation than the initiation phase. Indeed, firms [subsidiaries] may become reliant on certain types of governance that may not always be well-suited to their needs. It seems therefore not surprising that Hayes *et al.* (1988) argue that it is impossible for companies to implement advanced manufacturing technologies successfully without reshaping other organisational components. In a similar context Yasai-Ardekani (1997) noted that new technologies demand skills to perform new tasks, which significantly influences relationship structures.

Despite substantial empirical research on effects of technology on organisational structure (see for example Miller *et al.*, 1991 for a comprehensive review) there is a paucity of research on the effects of technology on strategic orientation (see for example Capon *et al.*, 1987 for an

exception). Empirically, attention is primarily paid to inflexibility of technologies (e.g. Yasai-Ardekani, 1989; Yasai-Ardekani & Nystrom, 1996). Such technologies are less adaptable to changing market condition and are also severely constrained by disruption in supplies of critical inputs. These authors suggest that the great vulnerability of organisations with inflexible technologies to environmentally induced disruptions the broader and more intense monitoring of environments will be applied. This implies that, in the short run, firms with inflexible technologies are expected to scan their environments more broadly to evaluate the impact of environmental changes and resource commitments on the organisations future operations (Yasai-Ardekani & Haug, 1997; Yasai-Ardekani & Nystrom, 1996).

2.6 Theoretical Themes and Researchable Questions

The above analysis has scrutinised the literature on strategy development and sensemaking-related activities, and has examined other contributing insights. In this section, the key issues raised in each part of the discussion are summarised and synthesised in order to identify theoretical gaps. This provides the link to the three research questions we introduced earlier in this chapter as those being key questions to be explored in this thesis. However, it must be stressed that not all theoretical gaps can be handled in a single study. Indeed, not all theoretical gaps are researchable. Therefore, the emphasis here is to on providing the reader with the theoretical gaps this thesis explores as well as presenting its relevant sub-questions of broad conceptual significance.

2.6.1 Strategic adaptation process

A fundamental normative prescription through almost all of the strategy adaptation literature is that managers must continually monitor the environment and make strategic decisions that keep firms aligned with new opportunities and threats in the environment (e.g. Miles & Snow, 1978; Mintzberg, 1978; Quinn, 1980). The understanding of the traditional approach in which strategy adaptation processes are studied served as the first step in investigating the elements of this process and the different perspective in which these elements can be affected. Through the review of these dimensions several critical themes became apparent that question the depth and comprehension of the traditional approach. It is particularly argued that the competitive landscape faced by firms is far more complex and uncertain. As a result, traditional approaches to strategy have collapsed because of their assumptions of stability (Brown & Eisenhardt, 1998; D'Aveni, 1994). These inadequacies of static views of strategy are increasingly being recognised in both content and process traditions which clearly reflect in the growing amount of dynamic oriented

research in these areas (e.g. Garvin, 1993; Mintzberg *et al.*, 1998; Teece *et al.*, 1997). Nevertheless, conceptual work that takes a dynamic view is notably hindered by the sharp distinction between process and content of the past, as researchers have tended to emphasise the dynamics of one element rather than the interrelationship between them.

It is only recent that important research issues are being articulated that aim to understand the dynamic interrelationship between content, process and context issues in more detail (e.g. Brown & Eisenhardt, 1997; Day *et al.*, 1997; Fowler, 2003). This research on dynamic adaptation of strategy claims that managers should have a complex and sophisticated view of competition in order to avoid oversimplification or ignorance of potential threats or opportunities. In addition, this stream of research proposes several tools and perspectives that aim to help them to develop strategies in this dynamic environment.

Despite the fact that these studies clearly adopted the underlying dynamic arguments of environmental complexity, content, process and context interrelationship and limited rationality of individuals, it remains questionable to what extent findings are generalisable and indeed provide the necessary tools. The common limitation is that the foundations are based on the researchers' conceptual understanding of the dynamic environment, rather than the current dynamic views of managers. This lead to the first research question:

Research question 1: How do firms adapt to a change in market conditions?

The fact that the foundations on which the statements rest are relatively weak is primarily due to a number of methodological limitations. In particular, current empirical research on strategy dynamics has not been able to trace and observe one particular strategic pattern within a complex organisation that provides them with a clear insight how managers develop a dynamic view. Although some attempts are made to link strategic change to interpretation (Barr, 1998; Thomas, 1993) no study thus far has focused on the development of the interpretation of one strategic pattern in real time. It will be this theme that will be the focus of our empirical research. This leads to interesting sub questions such as:

- How do managers' interpretations about a change in market conditions evolve over time?
or;
- How do strategies emerge over time?

2.6.2 The sensemaking perspective

Tichy's (1983) notion that managers influence organisational change shows that organisational response patterns to changing market conditions can be linked back to the interpretation and consensus of individuals. Section 2.4 concentrated on this cognitive process. In summarising previous work, Weick (1995) argues that problems do not present themselves as givens. This indicates that managers will only interpret what they know and act accordingly (Louis, 1980). The sensemaking process (Daft & Weick, 1984) not only discusses when and why managers respond to environmental changes, but also examines how managers respond through interpretation, choice and learning (Milliken *et al.*, 1990).

From a strategic formulation point of view, the sensemaking process discusses problem identification [*the manager notification of what is happening*] and problem definition [*the meaning given to that what is identified*] (Miles & Snow, 1984). Problem definition is seen as a complicated issue whereby individuals make connections between what they know and how to deal with it (Van De Ven & Huber, 1990). It is argued that individuals have limited capability to process information (Simon, 1955) and make sense of it (Weick, 1979), which influences the way firms behave in response to a change in market conditions (Cyert & March, 1963).

Despite the increasing attention recently given to interpretation processes (e.g. Barr *et al.*, 1992; Barr, 1998; Isabella, 1990), much is still to be learned about the relationship between interpretation and environmental shifts. In particular, the way interpretations change over time as the event unfolds and creates new realities of understanding that ultimately lead to the generation of new programmes of action in organisations. Empirical research thus far has been cited for its lack of conceptual coherence, but more importantly for having a research methodology that is invisible due to the nature of cognitive elements such as noticing, intention, beliefs, anticipation. In addition, only a few studies (see Bogner & Barr, 2000 for a notable exception) focus on the sensemaking process as a whole. Several research questions emerge from this discussion. The key question is:

***Research question 2: How do managers develop an interpretation about
a change in market conditions?***

This question can be further divided into sub questions that address the process of sensemaking in particular such as:

- To what extent and in which ways do managers anticipate the impact of a change in market conditions? or;
- To what extent do changes in interpretation about the impact of changing market conditions lead to changes in strategic response?

2.6.3 The discontinuous change perspective

Section 2.5 examined the existing literature on heuristic devices that sediment and dominate perceptions of managers (Bettis & Prahalad, 1995). In this section we presented arguments of the reductionism literature and the contextualism literature to explain the current debate on managerial and structural barriers that are limiting strategic choice. From a cognitive point of view it is argued that the individuals' behaviour towards external stimuli is mediated by the cognitive representation of those stimuli (Starbuck & Milliken, 1988). The reductionism argument adds that individuals have a simplified representation of the organisational world that sets boundaries to what they understand. While this simplification is essential for individuals to resolve complex problems (Porac & Rosa, 1996; Porac *et al.*, 2002), it also makes them resistant to change these boundaries (Mauer, 1996).

From a structural point of view the debate of organisational heuristics focuses around the existence of inertial forces (Ginsberg, 1988; Hannan & Freeman, 1989). It is argued that these forces lock in managers directions of thought as historical steps taken by firms create a 'path of dependency' (David, 1985). This path of dependency to some extent restricts managers from finding optimal solutions as well as it controls the choice of strategic solutions the managers have (Nelson & Winter, 1982). Hannan (1998) elaborates these arguments by arguing that inertia influences flexibility of response which makes it more difficult for some firms to adapt to changes in the environment. An in-depth review on what elements of the organisational design might be potential barriers that limit strategic choice, revealed that organisational structure, coordination, integration and technology are amongst the key elements.

The choice of strategy appears to depend partly upon the size of the gap identified between current and future position [*i.e. threats and opportunities identified*] (research question 2) and partly on the strengths and weaknesses of the company. This debate leads to the following key question and sub questions:

Research question 3: What are the key barriers or enhancements to the ability or likelihood of strategic change?

- To what extent and in which ways do managers reveal resistance to change their current strategy in order to adapt to a change in the market conditions?
- To what extent and in which ways do managers reveal limitations in strategic choice due to internal barriers?

After illustrating all research questions which are vital to the examination of strategic adaptation to a change in market conditions, the following chapter outlines various issues related to how the proposed research questions can be answered from an empirical point of view.

Chapter Three:

Methodology

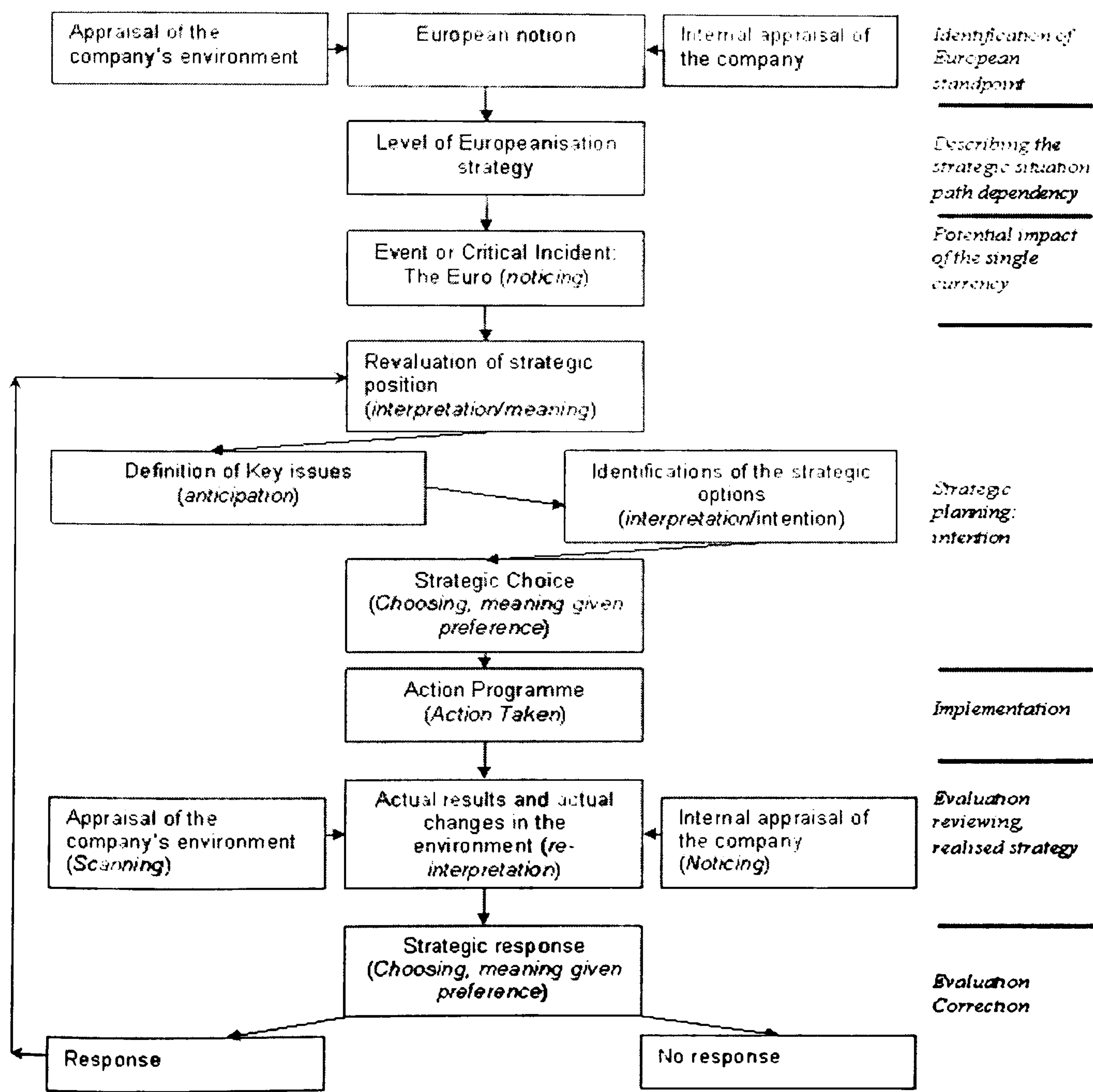
Three philosophical and methodological issues are central to any research study; why to research? What to research? And how to research? (Guba & Lincoln, 1994). The first question has been addressed in the previous two chapters. The research questions as proposed in the final section of chapter two has briefly outlined what we are going to research. The purpose of this chapter is to present the scope and context in which these questions are being studied, as well as detailing how the research has been carried out. Following these two objectives, the chapter is divided into two parts that address these questions separately. The first part will outline the methodological framework that guided this research. In this section we will first present a graphical overview of the methodological framework. The purpose of the analytical framework is to provide an early classification of constructs scope and context of the research which we use throughout the chapter as a point of reference. After that the philosophical and theoretical underpinnings of this framework will be portrayed. This will be followed by the research strategy, which will outline a multilevel approach, its units of analysis, and a selection of qualitative strategies and methods under guidance of the contextualist approach. The second part of the chapter will demonstrate how this strategy is utilised by presenting the data collection methods and the analysis methods that helped to fulfil the research objectives. The combination of both parts will provide an overall understanding of the methodology and will discuss its application to the research findings as presented in chapter five and six.

3.1 The scope of the research

The focus of the present study is on the perceived and challenged impact of the Euro on continuity or change in complex organisations over time. The impact is being studied from a perspective where transformation of the firm is seen as a context dependent process, with outcomes emerging not merely as a product of bounded rational debates, but also shaped by the interest, commitment, and perception of organisational members who interpret the gross changes in the environment based on individual, organisational and business environmental stimuli. With such a focus in mind we highlight one particular unfolding pattern of the outer context, and aim to

explain; what actors understand about this pattern; how this understanding is influenced by established processual patterns; and what actions are taken as a result of both issues. Thus, from an analytical point of view we are particularly interested in two aspects of development: managerial sensemaking and strategic response [actions]. What this indicates is that we adopted a design that aims to gather and analyse data at multiple levels, whilst focussing on the manager as the primary unit of analysis (Eisenhardt, 1989a) which is embedded in the second unit of analysis, the context of organisations. The integration and interplay of both processes can be seen as the third level of analysis. Figure 3.1 provides an overview of how this process is studied. This framework and its implementation will be discussed in great depth in this chapter.

Figure 3.1: Simplified strategic adaptation and sensemaking process



3.2 Philosophical underpinnings

Debates on the nature of social science and the inquiry methods are originated from the way in which the social reality is perceived and understood (Alvesson & Skoldberg, 2000). These principles combine beliefs about ontology [*i.e. what is the nature of reality?*], epistemology [*i.e. what is the relationship between the inquirer and the known?*] and methodology [*i.e. how do we gain knowledge?*]. The combination of these three beliefs might be termed a ‘*paradigm*’ or interpretative framework (Burrell & Morgan, 1979) that guides the researchers’ feelings about the world and how it should be understood and studied (Guba & Lincoln, 1994). In this section we will briefly outline the concepts of ontology, epistemology and methodology and explain the interpretive paradigm that structures this study.

3.2.1 Interpretative framework

Two contrasting schools of thought that address the fundamental philosophical questions of ontological and epistemological assumptions are labelled as ‘objective’ or positivist approaches and the alleged ‘subjective’ or interpretive approaches²⁴ (Lee, 2000). In responding to social reality positivists argue that the world is natural, ordered and independent from the actors and social activities, and universality can therefore be observed and measured (Blaikie, 1993). In contrast, the interpretivist argues that the world is social and constructed by its actors, whom are continuously involved in ‘*interpreting their world (social situations), other people’s behaviour, their own behaviour and natural and humanly created objects....* [It is further argued that] *they develop meanings for their activities together, and they have ideas about what is relevant for making sense of these activities*’ (Blaikie, 1993 p. 36). This implies that the main goal of the interpretivist is to investigate the ways in which people create or discover meaning for themselves, try to make sense of the actions of others, and together negotiate sensible social relations.

The main premise of this research is to find meaning in action, by investigating what actors do, and why actors do what they do. We therefore assume that knowledge of reality is gained through social constructs such as consciousness, shared meanings, documents, and other artefacts. We focus on the complexity of human sensemaking as the situation emerges. In other words, we attempt to understand the impact of the Euro through the meaning that people assign to this impact, and the actions they take as a result of this meaning (Orlikowski & Baroudi, 1991). Thus,

²⁴ Subjective approaches are variously described as naturalistic, qualitative, phenomenological, constructive or most recently interpretative.

an interpretivist perspective guides the research questions asked and the research strategy adopted.

3.2.2 Ontological standpoints

This process of interpretation or understanding is differentially represented in the literature, and indeed underlies some important differences of interpretivist scholars. We view interpretivism as a grounded and detailed study of the world of everyday life. Essentially it seeks to treat practical activities, practical sociological reasoning as topics of study, with a specific attention to an extraordinary event [*i.e. a change in market conditions*]. This form of interpretivism is often referred to as phenomenology, phenomenological sociology, or ethnomethodology (Hammersley & Atkinson, 1983). Indeed we adopt a multiple approach perspective rather than a single approach that represents the interpretive paradigm as this will narrow the view to reflect the multi faced nature of organisational reality (Burrell & Morgan, 1979). Consequently, the overall ontological basis that guides this study is based on the emergent perspective which sees social reality as subjective, ill-structured, complex, anomaly-filled, and socially constructed. This stance is consistent with ontological assumptions of nominalism (Burrell & Morgan, 1979). Thus, social reality is the context that sets the conditions in which actors define meaning.

3.2.3 Epistemological underpinnings

With this viewpoint on social reality we adopt a social construction perspective that meanings emerge through the verbal and social interaction of actors with its environment (Giddens, 1979). The main epistemological concern is to analyse and understand such meanings (Weick, 1979). Guba and Lincoln (1989) point out in this context that ‘*constructions come about by virtue of the interaction of the knower with the already known and the still-knowable or to-be-known*’ (p.143). The study therefore moves beyond the ‘one-sided’ view of actors’ experiences, by also seeking to understand the (organisational) rules that guide the actors in their interpretations. In doing so, we adapt three epistemological guidelines that underlie the researchers’ view how meaning emerges (see also figure 3.1).

3.2.3.1 Interpretation is path-dependent

This takes into account that actors are located in a specific intra-organisational environment that is characterised through its past, present and future relationship as well as its socio-economic, and its socio-cultural, and market environment in which the organisation operates that further guide these actors in their behaviour. This actor’s environment influences and orients the interpretative schema (Bettis & Prahalad, 1995), which eventually affects their enactment-selection-retention

patterns as actors are only aware of specific [guided] sets of information. It would therefore be inadequate to solely investigate the actors' interpretation without taking into account the factors that guide this behaviour.

3.2.3.2 Interpretation is the product of cognitive representation

Similarly, this research also notes that the actor's behaviour towards external stimuli is significantly influenced by the actor's cognitive representation of those stimuli. This implies that mental models of actors actively shape the environmental space in which organisations exist (Porac & Rosa, 1996). This research aligns with the perspective that when actors are responding to external stimuli they will do so in a distilled fashion, based on their own experiences and interpretation. Thus, this cognitive effect takes into account that actors use mental shortcuts to simplify problems to quickly understand and solve the problem.

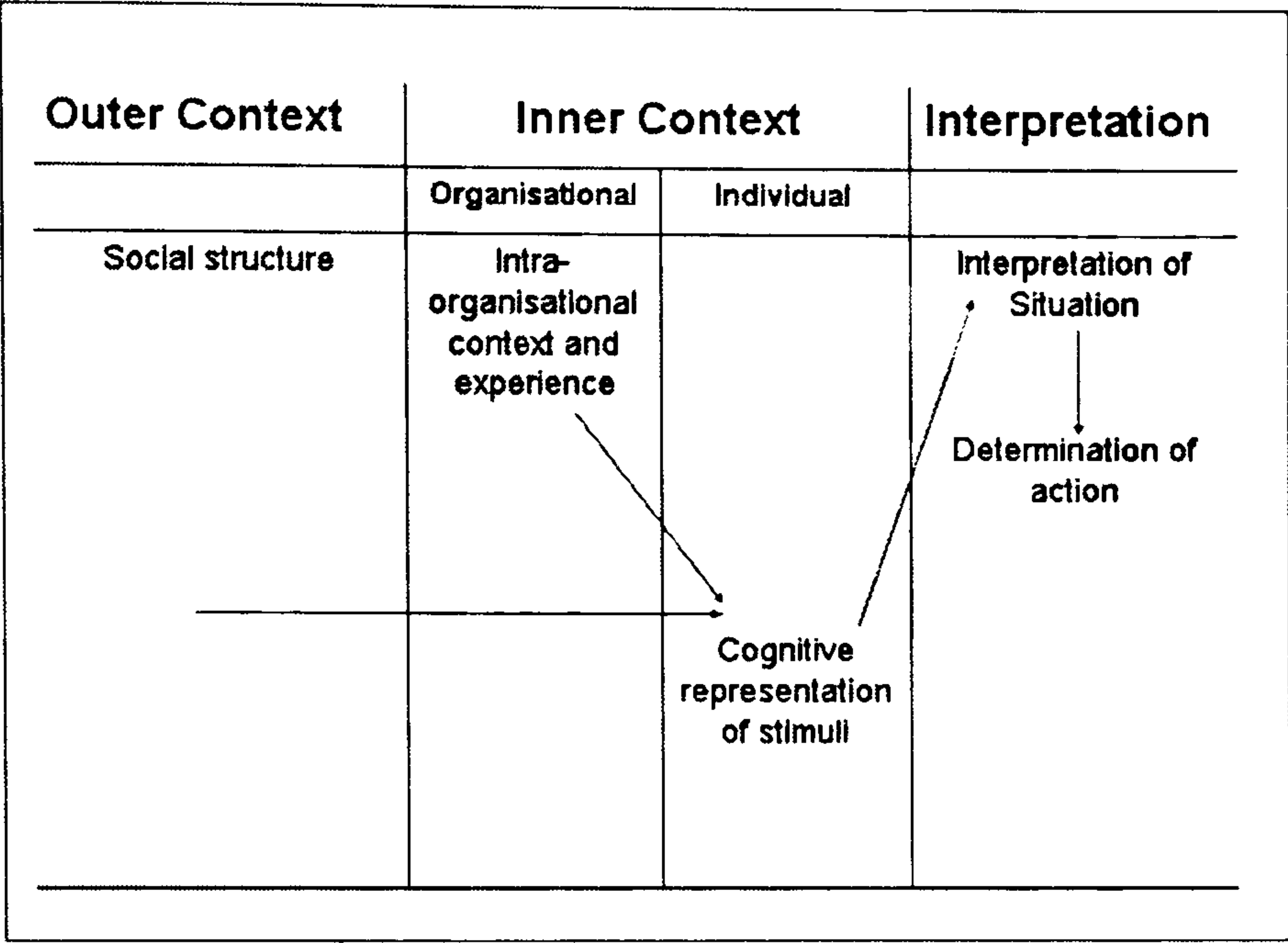
3.2.3.3 Interpretation is a necessary simplification of reality

This same assumption also recognises that the role of organisational members [typically managers] is to determine actions in uncertain circumstances aiming to create order out of chaos, which implies that actors design and implement strategies that can initiate changes in the environment. Indeed, this study concurs with the statement that the organisational behaviour in response to changes in the environment is the result of a combined interplay between [organisational] context and managerial interpretation and action.

3.2.3.4 Epistemological stance

In this research we argue that each of these epistemological guidelines plays some part in influencing the thinking and acting of actors that underlies the strategies which are deployed ultimately when responding to significant changes in the business environment [*i.e. the impact of the Euro*]. In other words, interpretation according to these guidelines derives both from the outer context, the organisational context and the individual representation of those two. Figure 3.2 illustrates the interplay of these epistemological issues.

Figure 3.2: Simplified epistemological stance of contexts of interpretation



Given that the main purpose of this study is to understand the dynamic interaction between the internal processes of a firm and a significant shift in market conditions as a result of the introduction of the Euro, the epistemological challenge is to find ways that capture the perceptions and interpretations of organisational members that further explain the (elements of) complexity of this cognition – action relationship. Our epistemological stance implies a method of inquiry that is concerned with the interaction of social actors with their environment (see for example Giddens, 1979 ‘structuration’ theory), as well as the resulting interpretation of actors on action and movement (see for example Sztompka, 1991 ‘social becoming’ theory). Critically, this can (only) be elicited and refined through interaction between researcher and actor utilising qualitative methods as actors perceptions can not be considered as ‘object’, nor can their perceptions be simply ‘acquired’ (Burrell & Morgan, 1979). In other words, actors’ behaviour does not consist simply of fixed responses or even of learned responses to stimuli, but involves interpretation of those stimuli in order to construct responses.

3.3 Theoretical underpinnings: Contextualism as a method
The above philosophical underpinnings provide insight into the assumptions this study makes about the nature of the social world. However such set of assumptions, is not sufficient for spelling out the way this social world is organised. To analyse this social world we draw on the broad statements of the contextualist framework as philosophically proposed by Pepper (1942),

interpreted by Payne²⁵ (1982), and theoretically and empirically developed from an strategy and organisational behaviour point of view by Pettigrew (1985b; 1985a; 1987; 1990; 1992; 2001).

In his book '*World Hypotheses*' Pepper describes four different approaches how knowledge can be obtained. The central notion of these hypotheses is that knowledge is gained through a continuous process of cognitive refinement²⁶ in order to improve the claims made based on common-sense (Payne, 1982). The '*world hypothesis*' of contextualism is according to Pepper concerned with an event in its setting. He argues that every additional (environmental) event alters the character of an already established pattern. These arguments are based on the notion that contextualism is *synthetic* as the object of study is a pattern of historical events rather than discrete facts, and *disperse* because there is no systematic connection through lawful relationships (Tsoukas, 1994).

The overall strength of the contextualist approach is that it draws the attention to antecedent conditions that force the researcher to explore the deep structures in which the event is analysed. This will eventually help to understand how and why the present and emerging future is shaped in the way it is. As such this theory of method provides a holistic and multifaceted treatment of the phenomena studied. Contextualism not only attempts to identify the impact of the environment on the firm, but also takes into account the existing intra-organisational features that might influence the way in which the firm will respond to this impact (Pettigrew, 1990). In doing so, it recognises both the complexity of the environment the firm is operating in as well as the dynamic role the firm plays in this environment. There it assumes that firms are embedded in an environment that constrains and shapes their actions (Pettigrew, 1990), it also points out that there is space to act and react to environmental pressure. In other words, organisational actors are seen as being capable of simplifying the inner and outer context in order to reconfigure the existing pattern in order to propose different strategic options. Contextualism can therefore be viewed as providing the bridge between interpretation and determination of action (see figure 3.1).

3.3.1 Broad statements on contextualism as a form of inquiry

In a series of articles Pettigrew (1985b; 1985a; 1987; 1990; 1992; 2001) proposes some key points to emphasise when dealing with the practical process implications of using contextualism

²⁵ Payne clarified the epistemological base of contextualism, by pointing out the strengths and weaknesses of this approach. He also argues for the use of contextualism in organisational psychology.

as the method of inquiry. First, the study should explore the continuous interplay between the context of change, the process of change, and the content of change on the evolution and development of strategies within firms. This refers to the importance of focus on ‘changing’ rather than ‘change’ which challenges the researcher to *‘(1) [to] attempt to catch reality in flight and (2) to study long-term processes in their context in order to evaluate embeddedness to a principle of method’* (Pettigrew *et al.*, 2001 p.698). Second, it should be taken into account that there is a sequential interconnectedness among phenomena in historical, present and future time (Clark, 2000; Pettigrew, 1990). This highlights the importance in understanding and revealing the structures historical steps have created. This also points out that special attention should be paid to *‘how context is a product of action and visa versa’* (Pettigrew, 1990 p. 269). Finally, contextualism research aims to provide a holistic analysis by focussing on explanation of change such as continuity and change, patterns and idiosyncrasies, and the role of contexts and structures.

3.3.2 Limitations of the contextualism method

The contextualist view is representing a method that works from the present event outward. This implies that claims can be made about the impact of the present event on the existing patterns, which enables to highlight the uniqueness of the change impact and it further aids the understanding of its change impact. This explanation is neither linear nor singular, and is therefore bound to be a holistic and in-depth picture of an event in a particular context. This, to some extent, limits the generalisability. Researchers adapting a contextualist approach recognise and accept these boundaries and therefore do not aim to provide a simple and singular theory of change. They do, however, aim to provide a clear picture of how and why organisations change. Contextualists therefore do not seek to explain the underlying mechanisms that shaped the intra-organisational context prior to the event, but instead focus on exploring what impact these structures have on the adaptation of an event.

3.4 Research Strategy: Contextualism as a Mode of Analysis

The important recognition that change is embedded into interconnected levels of context, proposes to study change in the context of levels of analysis. The first analytical question that arises is how many levels of context analysis should be addressed. The second analytical question is which processes should be included or excluded. The combination of these analytical issues

²⁶ Pepper explains this refinement process from a *‘multiplicative corroboration’* perspective, that is, a process of gathering inter-subjective confirmation, and from a *‘structural corroboration’* perspective, that is, a comparison between structured theories and empirical data.

reveals what types of questions can be answered (Pettigrew *et al.*, 2001). The second suggestion made in the broad statements that history creates a path of dependency that guides and constrains actors in their determination for action, points out that time should be captured²⁷ both in a retrospective and a real time analysis to reveal the extent to which this path plays a role. Moreover, the context action relationship calls for a performance outcome into the research design (Pettigrew *et al.*, 2001). Doing so provides the researcher with two additional advantages. First, performance outcome provides a focal point. Second, performance outcome allows to explore variation over time.

In this research strategy section we will further explain what analytical choices this study made and how this study dealt with the complexities of the contextualist approach.

3.4.1 The multilevel approach

Pettigrew (1985b; 1990) proposes to adapt a longitudinal approach [horizontal analysis] based on multiple levels of analysis [vertical analysis], where the interconnections between those levels of analysis through time explain the holism that is achieved. The multiple levels of analysis attempt to explain the interdependencies between inner and outer context²⁸ of the firm. While the horizontal level refers to the processual [path of dependency] established patterns created over time. As such, Pettigrew investigates three levels of analysis and their interconnections between the group level, firm level, and business environmental level.

While we also adapt a multilevel and processual approach that investigates the context dependency of multinational firms responding to the perceived impact of the Euro, our study fundamentally differs in the way we define and emphasise the ‘outer context’ to explain the overall pattern of continuity and change. For Pettigrew much of the outer context level of analysis reveals the ‘how and why’ of strategic change as it acts as a vital component that explains the origins of organisational change. More specifically, the interconnections between the understanding and tactical skill to analyse and respond to the outer context, as well as the controlling force of established processual patterns are used by Pettigrew to explain and explore continuity and change over time. He therefore describes the outer context level of analysis as ‘*the*

²⁷ This argues against ‘single-snapshot’ methods (Pettigrew 1990) which are seen as inadequate as they represent accidental or transitory images of the situation.

²⁸ ‘Outer context includes the economic, social, political, and sectoral environment in which the firm is located. Inner context refers to features of the structural, cultural, and political environment through which ideas proceed.’ (Pettigrew, 1990 p. 268)

one most novel to the analysis of organisational change and analysis, and the one most difficult empirically and theoretically to handle' (Pettigrew, 1985 p. 48).

The significant difference with Pettigrew's approach is that with the focus on the impact of the Euro on continuity and change of MNE's in two industries over time we have defined the origin of change or continuity beforehand. While this does not significantly change the assumptions we have about contextualism, it does change the relationship with the chosen method. In other words, as elaborated previously, the research topic significantly influences the epistemological base of the study, the research questions asked, and the way the change and continuity process is studied. Simply stated, in this study we highlight one particular unfolding pattern of the outer context, and aim to explain; what actors understand about this pattern; how this understanding is influenced by established processual patterns; and what actions are taken as a result of both issues. In addition, we examine this process over time to find out how both understanding and response evolve. These levels of analysis and their elements are defined more explicitly below.

3.4.2 The levels of analysis

The focal point of analysis of this study is threefold (see figure 3.3). First, it aims to describe and explain viewpoints of organisational actors of various firms in the Consumer Electronic (CE) industry and the fast moving consumer good industry (FMCG) about the impact the single currency had on facilitating or inhibiting the need for strategic change before (T^0) and after the Euro (T^1) was introduced on a consumer level (see figure 3.4 for time definition). Second, this study aims to explore to what extent current and historical organisational processes stimulate or bound the sensemaking of organisational actors when defining the need for strategic change before and after the Euro was introduced on a consumer level. And third, this study aims to examine the interdependencies between the first two issues by investigating what deliberate actions are indeed undertaken by these firms to deal with the Euro on a consumer's level before and after it was introduced; why in particular these actions are taken by these companies; and how these strategic response patterns (and their interpretations) changes over time.

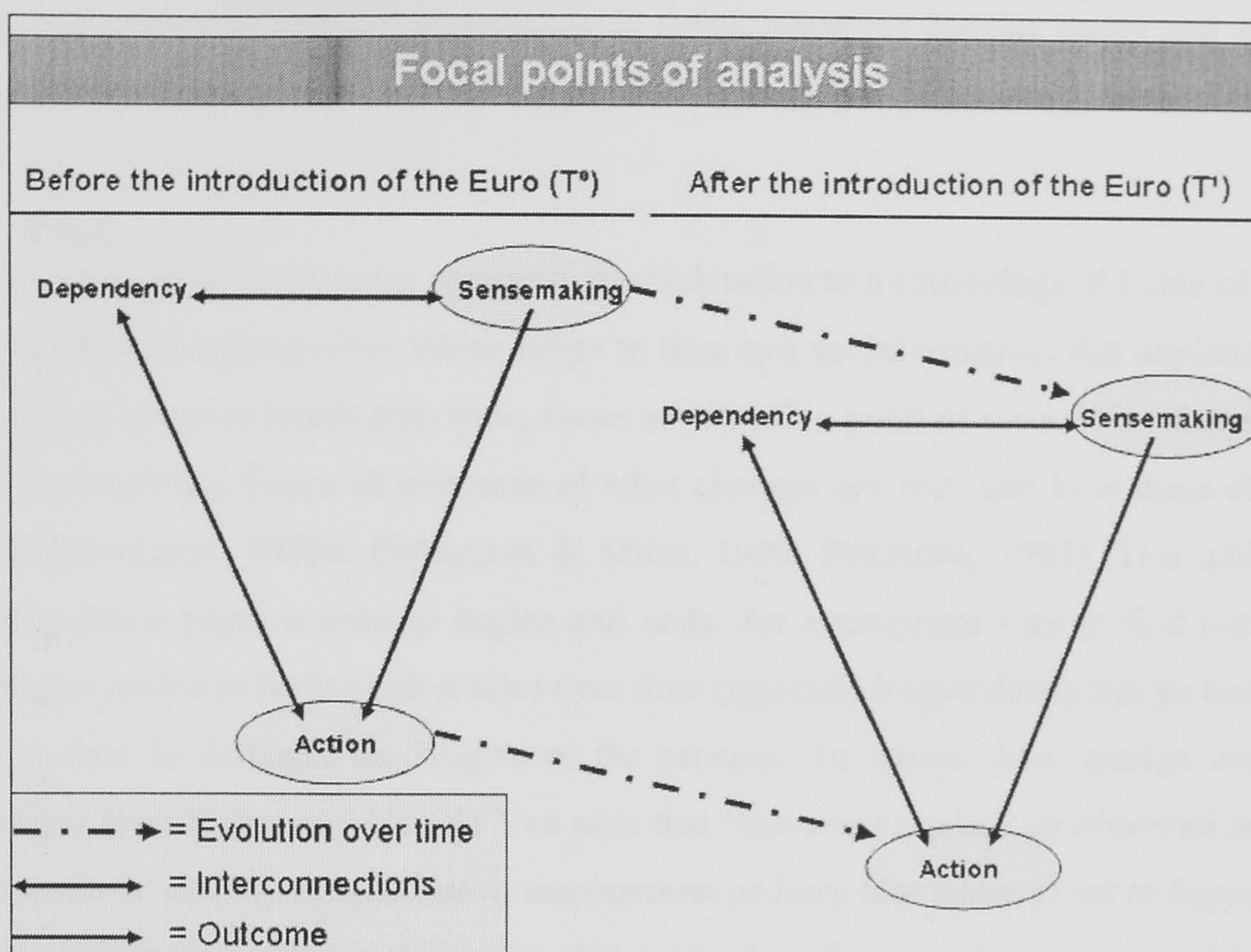


Figure 3.3: Focal points of analysis

Simply put, within this analysis, strong emphasis is given to two aspects of development; sensemaking and actions. Actions in this study refer to the outcome of sensemaking. The view taken here is that the context, in which both patterns develop, is shaped and constrained either in terms of direction or the extent to which they can be altered by established processual and structural patterns. What we are interested in is the evolvement of both patterns over time. In other words, the frame of reference used to explain variation is time. In doing so, we examine both aspects and their interconnectedness in six phases. These phases are presented in table 3.1 (see also figure 3.1).

Table 3-1: Six phases of analysis

Before the introduction of the Euro (T ⁰)	After the introduction of the Euro (T ¹)
1. Analysis of established processual patterns 2. Analysis of sensemaking dependency 3. Analysis of intended strategy and actions	4. Analysis of impact perception 5. Analysis of realised strategy 6. Analysis of new intentions and actions

In the following section we will discuss how sensemaking and actions will be analysed in this study. Before doing so we shape the context in which both aspects are discussed. We will pay

particular importance to context dependency in terms historical inertial forces that are created within firms over time. But first we will explain the importance of time in this study.

3.4.2.1 Time

We address time from an objective perspective which refers to a chronological frame of reference, and from a subjective perspective which refers to time as a social construct that explains temporal meaning that is given to issues over time. From an objective point of view, it is often argued that time sets an important frame of reference of what changes are seen and how these changes are explained (Eisenhardt, 1989a; Huberman & Miles, 1994; Pettigrew, 1985). This addresses the important question when a process begins and ends. An appropriate way to find out when the process begins seems to be through studies over time (typically longitudinal) that go back as far as possible in time to detangle the origins of the process. To answer how change emerges and develops over time Huber and Van de Ven note that *'one must explain an observed sequence of events in terms of underlying generative mechanisms or laws that cause event to happen and the particular circumstances or contingencies that exist when these mechanisms operate'* (Huber & Van de Ven, 1995 p. vii-viii). However, the disadvantage of longitudinal qualitative data are intimidating in that it is often complicated and time consuming to define the origins of the process, which also holds for the 'end' of the process as there is no closure of analysis.

With the focus on the impact of the Euro we concentrate on an episode or particular pattern of the continuous change process. Focussing on an episode of change has the advantage that the difficulties faced when doing longitudinal research on continuous change can to some extent be tackled. This is particularly the case with the Euro that in terms of chronological time is characterised by an official timetable. The key advantage is that the moment when change was initiated is clearly traceable. This sets a framework which focuses on a major breakpoint (Tushman & Romanelli, 1985) which indicates the beginning of a period of continuity or change.

The breakpoint of time we adapt in this study is the introduction of the Euro at a consumer's level which took place on the 1 of January 2002²⁹. An advantage of this breakpoint is that it was compulsory for firms operating in the Eurozone to deal with all internal and external transactions in Euro's after the 31 of December 2001. Given the compulsory element we could be sure that the Euro was at least an 'issue' for Eurozone based companies. We further assumed that firms

²⁹ 1 January 2002: Euro becomes the official leading currency in 11 member states. 12 billion euro notes and 76 billion coins are made available. Contracts, checks, and transfers were officially denominated in euros.

operating in the Eurozone started to anticipate and respond to the potential impact of the Euro on the business environment during the changeover process. Other compulsory dates such as February 2001 [*firms operating in the Eurozone were obliged to accept the Euro as an invoice currency*] and July 2001 [*firms were obliged to price in the national and Euro currency both at a business as on a consumer level*] contribute to the validity of this assumption. This preparation for the changeover to the Euro, could start earliest in 1992 after the Maastricht treaty was signed by the member states, and latest in 2001 short before the first compulsory element of Euro invoicing.

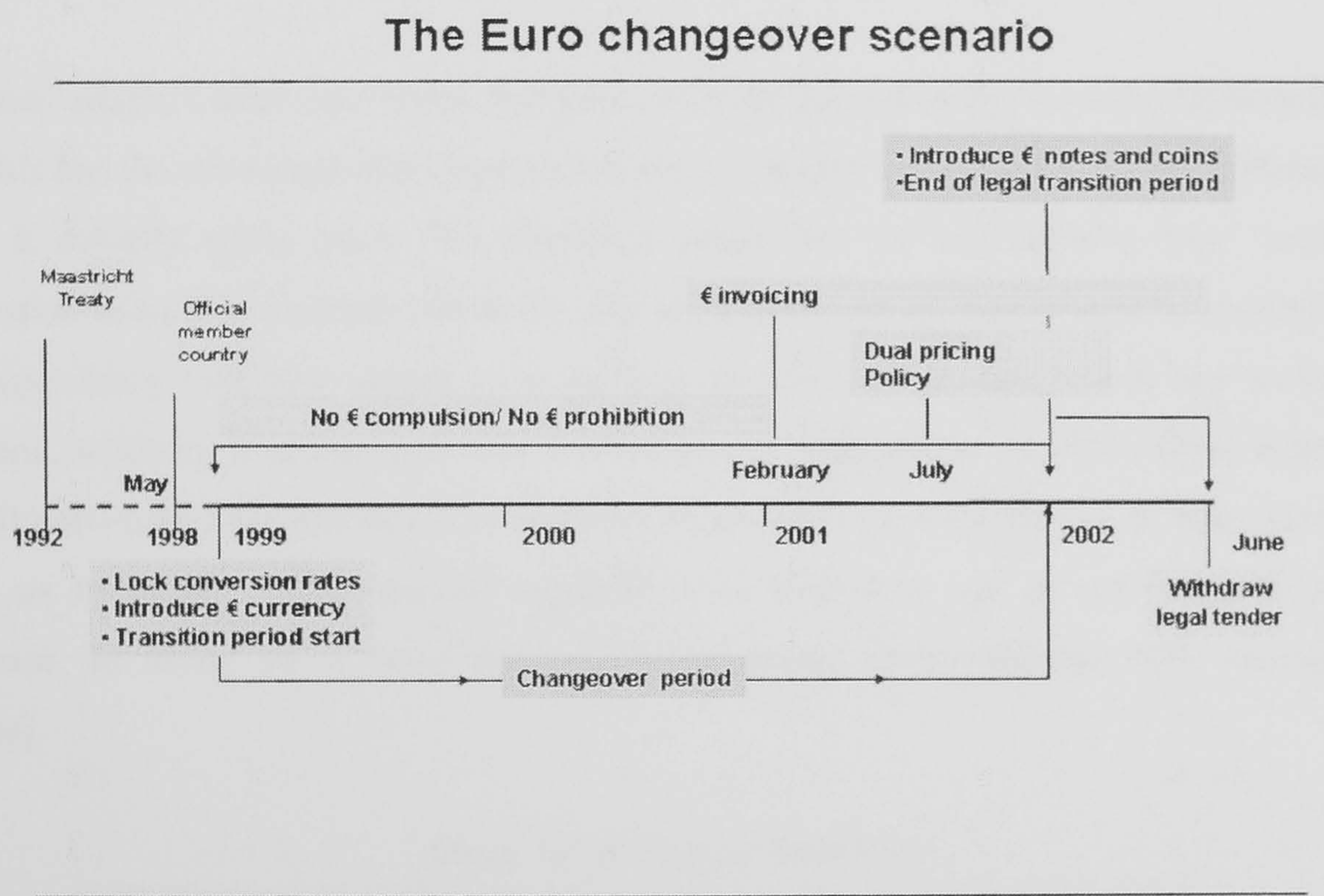


Figure 3.4: The Euro changeover scenario

The introduction of the Euro at a consumer’s level as a breakpoint also serves as point of reference to explain how the event unfolds over time. It is through time that we can begin to grasp the nature of the impact of the Euro, the mechanisms and strategies used by individuals to generate and manage the impact, and the ways in which the pattern of impact is unfolding. Indeed, it is only through time that we can gain a better appreciation of how the interpretation of impact evolves, how the firm aims to align to its interpreted environment, and to what extent they succeed in doing so. It is this need to take account of the dynamic nature of the firm’s response to the impact of the Euro that leads to the development of the proposed time phase research methodology. The aim, as Pettigrew (1985b) suggests, is to capture a ‘movie’ rather than simply a ‘snapshot’ of the impact.

From a subjective time perspective, current longitudinal studies that addressed change often face complications of subjectivity of actor’s interpretations of historical issues, as the actors are biased by current developments that can lead to contradictory accounts. Such revealed pluralism can trigger discussion and question the validity of the study. The topic studied and the definition of breakpoint in time to some extent helps us to overcome these problems as it provides us with a frame of reference that minimises problematic issues such as ‘meaning’ differences. This subjective time perception determines the temporal meaning attributed to the event within a sociological system, which, in turn, affects the individual behaviour.

This study adapts a dual time frame that deals with the impact of the Euro in real-time (see figure 3.5). This has the advantage that respondents are not biased in their view as they address the issue before it actually takes place. We therefore claim that we can capture ‘true’ intention and anticipation using this method. Moreover, the subjective perceptions of time in combination with path dependency (see next section) are used to analyse how interpretations and actions evolve over time, whereby it is assumed that it are these interpretations to which firms adapt (Weick, 1979).It particularly emphasises how and why firms differ in their timing in their response, as it allows us to explain what internal capabilities or resources can be attributed to the timing difference. In doing so it links temporal assumptions (sensemaking) with strategic choice (actions).

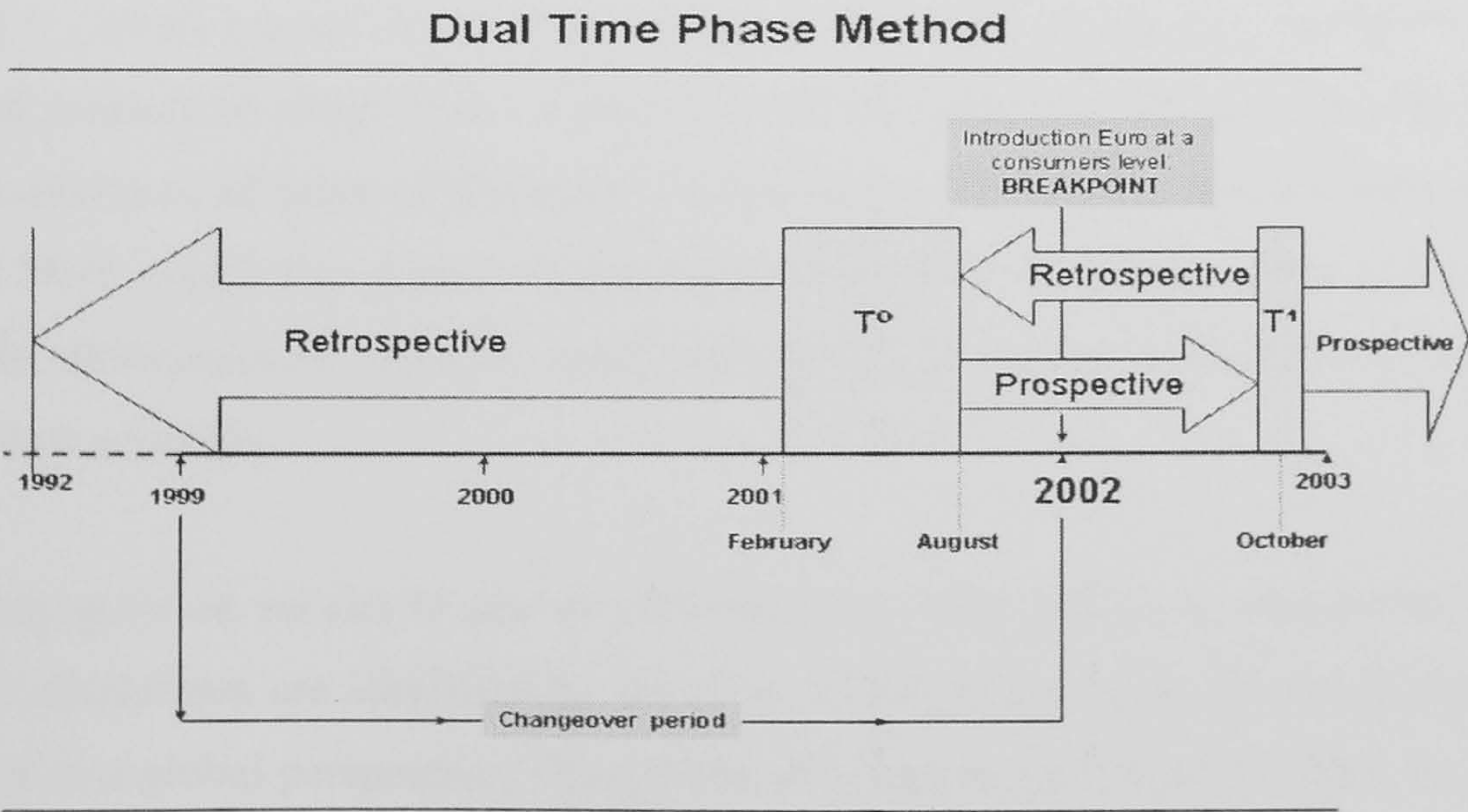


Figure 3.5: Dual time phase method

3.4.2.2 Path of dependency

As previously elaborated the history of the firm creates a path of dependency that guides actors in their interpretation and constrains them in their determination for action. We defined this path in the literature review as being the result of inertial forces that are created over time. These inertial forces act as managerial and strategic heuristics that to some extent will characterise the current action pattern as they provide deeper pathways that might structure underlying logic of future actions. In other words, decisions and actions of the past establish a repertoire of specific routines that structure actions of the present.

With the focus on actions we proposed a link between the external event and the actions assuming that firms actively need to adapt to the market environmental changes. The compulsory character of the adaptation of Euro strengthens the argument, as firms are obliged to make at least technical adjustments to make the company ‘*Euro proof*’. In terms of strategic response we need to analyse what issues and factors of the past interact with the way the impact of the Euro is approached and dealt with. This will help us to understand the development of the determinants of MNE’s response to the impact of the Euro.

Given the European character of the phenomenon studied, and the particular focus on MNEs operating in the Euro-zone, it seems reasonable to suggest that MNEs will respond based on the extent to which the impact of the Euro will reinforce historical steps taken in response to previous European [or global] market developments. From a European perspective the MNE might have experienced pressure to integrate at a European level as a result of, for example, the definition of European customers, increase of European competitors, and pressures for cost reduction. On the other hand MNE might have experienced pressure to increase local responsiveness as a result of, for example, differences in customer needs, differences in market structure and the presence of local substitute products.

Thus, the key question we aim to answer with the path of dependency is what market differences and market similarities are identified by the firm in the past to approach the European market from a local or a global perspective. The answer will explain the extent to which the MNE have implemented actions in the past that reveal if the MNE has been adapting a more European strategy or a more localised strategy prior to the introduction of the Euro on a consumer level. As such, this study is interested in the antecedent conditions that shape the organisational context and form and nature the way MNEs respond to the introduction of the Euro over time.

Particular features of the organisational context that are of interest are those that reveal coordination at a European or local level. This coordination is explained through capabilities and available resources. We view coordination capabilities as the ability to control and integrate different skills at multiple levels in the organisation across the Euro-zone countries. Insight into coordination capabilities reveals the way knowledge is disseminated and structured within an organisation. As such, coordination is explored through the existence of formal and informal structures such as organisational design issues and distribution of power. The current resources of the firm [*i.e. technology, production, machine capacity, international experience, research and development, standardisation*] then further explain the extent to which coordination has effect, and indeed controls how far, how fast and in what form and direction strategic responses to the Euro are developed.

However, this study also acknowledges that the speed and form of development might be significantly limited by business environmental contextual issues such as set rules and legislations that are country or industry dependent and therefore bound the type of response that can take place. Although this is not a key issue of examination, we would label this under the path of dependency. This implies that from an analytical point of view issues that might arise as ‘industry context dependent’ are treated as bounding response choices as it is assumed that these are difficult to be altered by established processual and structural patterns.

3.4.2.3 Sensemaking

In this section we describe a model of the interpretive system of organisational actors that are involved in the strategic adaptation process of the Euro. Through this model we aim to understand how actors are making sense of the Euro and how they frame the potential impact over time. More specifically, we try to distinguish between what actors reveal about the impact of the Euro before and after it is introduced; how is this understanding influenced by established processual patterns; and how does this sensemaking evolve over time. These questions are shaped and set in the context of time and path of dependency as elaborated in section 3.4.2.1 and 3.4.2.2 respectively. This implies that we are aiming to define two sets of path dependent temporal meaning that represent the sensemaking of actors about the impact of the Euro at two points in time, in order to explain how and why they change overtime.

To develop our model of interpretive system, we draw closely from several earlier efforts that link cognition with firm behaviour. We particularly use Daft and Weick (1984) and Milliken et al. (1990) attempts to explain this relationship. These models all share common features: actors and their frame of reference; a process that involves some sort of scanning, noticing, interpreting, deciding and acting; an information environment with particular stimuli that are perceived and interpreted by the actors; and, often, a series of feedback loops that link actions to changes in the environment. In this sense, the model as outlined in figure 3.6 does not differ significantly from those models already proposed, though it has been tailored to meet the specific needs associated with the impact of the Euro. We will briefly discuss the elements of the interpretive system part of the model and their role in this study.

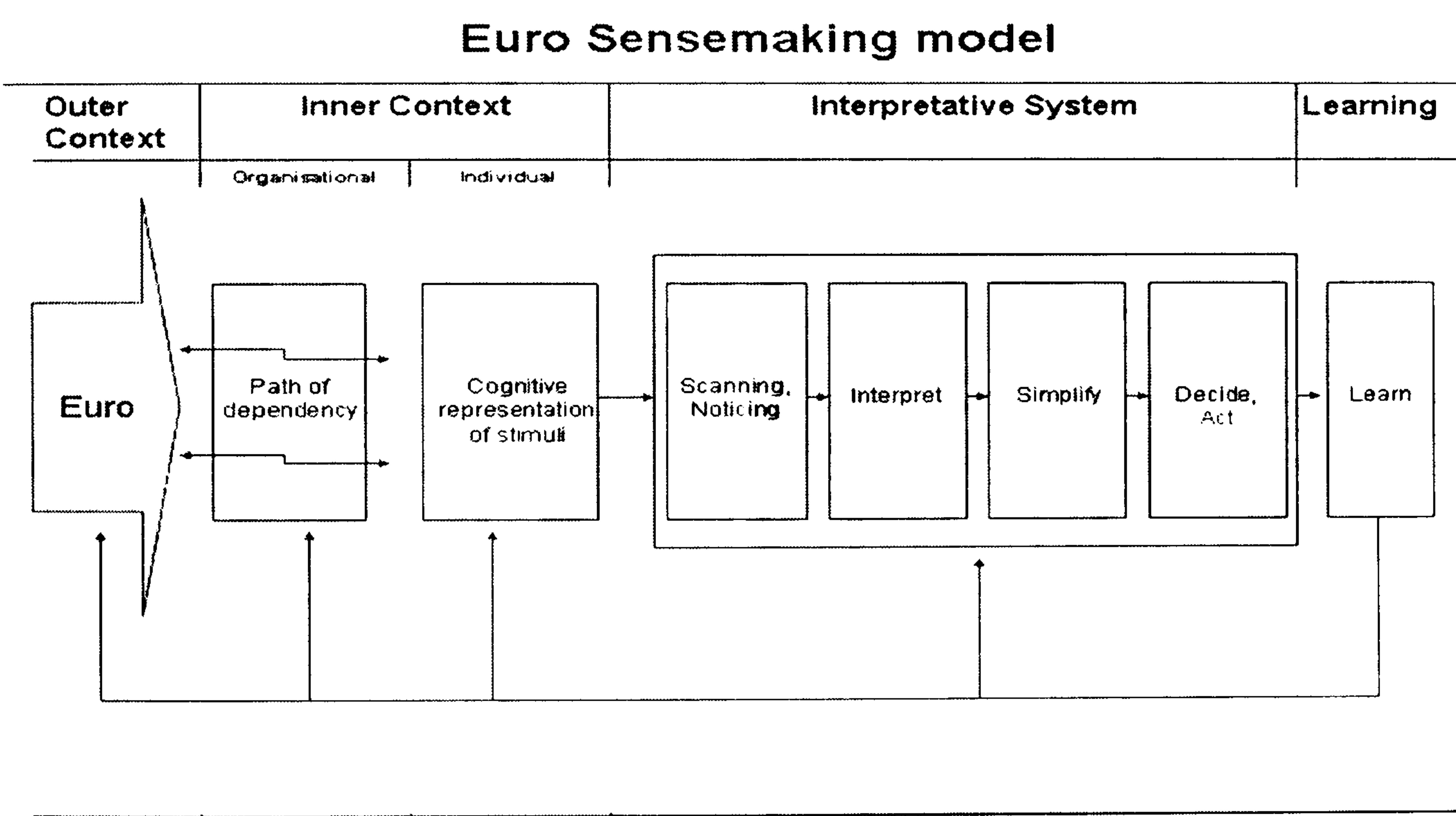


Figure 3.6: The Euro sensemaking model

The first stage of the interpretive system – scanning – is fundamentally about data collection which involves what is looked at and attended to as a result of the representation of cognitive stimuli. In other words, stimuli representation significantly influences implicitly or explicitly the scanning behaviour of the individual and will eventually influence what is noticed. The second stage – interpretation – is where meaning is attributed to the environmental data. This involves an analysis at an individual level. The third stage –simplification – might be on an individual level but is typically a stage which involves a process of achieving a collective view about the solution. This will ultimately lead to a choice of action - stage four.

The information environment comprises all of the commonly cited factors of the business environment such as competitors, government policy and regulation, and so forth. Although this plays a significant role in the decision making process, we here draw special attention to the impact of the Euro as part of the outer context of the organisation. We argue that this process is embedded in a context from which it cannot be separated. However, it is important to note that despite this context dependency, this information environment does not transmit clear and easily recognised signals to individuals. Indeed, it is this very uncertainty that invites an explanation in cognitive framing. Within such uncertainty it is assumed that organisational actors are not following a highly unified and clear cut normative system. Rather it is expected that they construct meaning and definition to the path in which they negotiate how and what actions are implemented. They will do so time after time, which recognises that the interpretive process is not just a linear, one time event, but is looping and iterative.

With this model we analyse two interpretative temporal processes: before and after the introduction of the Euro. In doing so we first seek to add to the limited literature on interpretation development as it occurs before the event takes place. The key question we aim to answer in this respect is to what extent and in which ways do managers anticipate the impact of the Euro? The interplay between plausible cause interpretation and initial choice how to act will detail the perceived impact of the Euro after its introduction. Thus the key question after the introduction of the Euro is to what extent and in which ways is the Euro a stimulus for strategic change? After both interpretative temporal processes are defined we can compare both sets to explain the way they evolve overtime.

3.4.2.4 Actions

With the actions level of analysis we aim to capture the actual organisational response to the evolutionary and unfolding pattern of the impact of the Euro that appears overtime. This category provides a more in-depth understanding of the macro dimensions of strategy, referring to the actual changes and transformations by organisations. From this perspective we aim to raise a number of important questions concerning the emergence and development of the Euro strategy over time. In doing so, the key questions we address are; what deliberate actions are undertaken before the introduction of the Euro; what deliberate actions are undertaken after the introduction of the Euro; and third, how do these response patterns change overtime. We refer to action as the actual steps undertaken by the organisation as a result of the outcome of sensemaking (see figure

3.6) which automatically implies that these questions are shaped and set in the context of time and path of dependency as elaborated in section 3.4.2.1 and 3.4.2.2 respectively.

With this approach we draw on Mintzberg's and Waters' (1985) model of 'types of strategies' as elaborated in the literature review section 2.2.2.3³⁰. With this model these authors argue that strategy should be viewed as formation rather than formulation and implementation (see also Mintzberg, 1978) indicating that strategy comprises both decisions and actions. This model helps us to define three important stages in the strategy formation process that can be linked to the evolution of the Euro strategy process. The first stage – intended strategy – refers to the outcome of managerial intentions what deliberate³¹ actions to take in response to the interpreted impact of the Euro prior to its introduction. The second stage – realised strategy – refers to the outcome of managerial interpretations of what issues have emerged between T⁰ and T¹, which reveals the rate of success of the intended strategy. Finally, the third stage – reformulation of intention – refers to the outcome of managerial intentions what deliberate actions to take in response to the interpreted impact of the Euro after its introduction.

By adapting this model we see the strategy formation process not purely as a rational process that is based on the assumption that strategy can be the result of either planning or learning. Instead, strategy formulation is understood as a continuous interaction of emergent learning alongside deliberate planning which implies that strategy is formed in a complex process involving a combination of deliberate and emergent actions. Therefore the conception of a novel strategy is interpreted as a creative process, for which there are no formal techniques. However, to plan these strategies throughout complex organisations requires some type of guidance to ensure that intentions can be transferred into actions.

With this model we can analyse two deliberate action processes; before and after the introduction of the Euro. The interplay between the intended strategy and the realised strategy will detail the

³⁰ The deliberate strategy is described by Mintzberg (1994) as a pattern, that is, consistency in behaviour over time. In addition, an intended strategy that is fully realised can be called a deliberate strategy. Any strategy that is intended but not realised to any extent is described as an unrealised strategy. Mintzberg sees an emergent strategy as '*a realised pattern which was not expressly intended. Actions were taken one by one, which converged in time in some sort of consistency pattern*' (Mintzberg, 1994 p. 25). Important in this context is the recognition of Mintzberg that no strategy is purely deliberate or purely emergent. He points out that all real world strategies need to mix this two in one way – to attempt to control without stopping the learning process which is vital for firms in order to improve the chosen strategy if necessary (Mintzberg, 1994).

perceived impact of the Euro after its introduction. With the definition of both response patterns we can compare both patterns to explain the way they evolve overtime.

3.4.3 Critical Incident Methodology as a frame of reference

To date, the complexity of understanding dynamics of change across time and space has often been interconnected with its methodological invisibility. Arguably the most challenging element of change studies is to identify patterns in the process of changing that are explaining the firms' behaviour. It is therefore often argued that change studies require a longitudinal study in order to observe all the sequences of individual and collective events, action, and activities that unfold over time in context to find out what are the key causes that explain the change. The significant difference between traditional change studies and this study lies in the prior identification of the potential cause of change (the Euro), in order to find out the trajectories of change in terms of changing context and the resultant complexities and ambiguities of human interpretation and action. In other words, this attribute-oriented approach reflects the perceptions and interaction of organisational actors with their environment.

The use of interaction incidents to understand the critical and complex perceptions and behaviour of individuals is often referred to as the critical incident technique³² (CIT) (Flanagan, 1954). In management studies, CIT and variants³³ have frequently been applied in service research (e.g. Edvardsson & Roos, 2001; Roos *et al.*, 2004; Roos, 1996; Stauss & Weinlich, 1997) to identify and understand critical parameters from the eyes of the actor and to reflect the consequences of this criticality on the [customer] relationship behaviour. In this study we adapt elements of the switching path analysis technique [SPAT] as suggested by Roos (1996; 1999; Edvardsson & Roos, 2001) in order to understand the critical behaviour of organisational actors with their environment over time.

3.4.3.1 The switching path analysis technique (SPAT)

SPAT is defined as a method that is based not only on critical incidents but also on the criticality of the incident. This criticality is viewed as the way in which judgements of actors of the consequences of the incident affects the behaviour of the actors responding to the incident. In

³¹ The term deliberate is preferred to planning, as intentions are no always expressed in the form written plans, similarly we use the term emergent instead of incrementalism

³² Flanagan described CIT as '*a set of procedures for collecting direct observations of human behaviour in such a way as to facilitate their potential usefulness in solving practical problems and developing broad psychological principals*' (1954, p. 327).

service research, SPAT is used to describe the switching path from a deliberate switching decision to a change of service provider (see Roos, 1999; 2001). In other words, the dynamics of the critical incidents are being traced through the actual behaviour. What this implies is that previous studies adapting SPAT also aim to explain what is causing the actual behaviour. Unlike previous studies using SPAT, the rationale of this study focuses around a fixed critical incident which is being studied in realtime.

Accordingly, the impact the Euro has on the organisation according to the respondent [*the switching path*] is triggered by the reconfiguration of stimuli by the individual [*the trigger*], who link the Euro [*the switching determinant*] to the organisation environment in order to decide if change is necessary [*switching process*]. This initiating factor affects the entire switching path. Or as Roos (1999) puts it ‘...it becomes clear through understanding the nature of the catalytic switching path that the trigger makes the respondent sensitive to the switching determinant, which gives the path energy and direction’ (p. 71). SPAT as a technique is not interested in determining the configuration in terms of explicit actions. Instead it searches for dynamism of the switching path, that is, the change over time connected to the trigger. In other words, the respondent expresses the determinants that are in his/her perception connected to the trigger in a particular configuration. This provides an answer to if and when a switching path starts and where it goes [*the switching process*]. It is not the switching determinant that is the device factor, it is the trigger, which gives energy and direction. Figure 3.7 outlines the changing nature of the switching path as it is adapted in this study.

³³ For example the sequential incident technique (Strauss and Weinlich 1997) or the criticality critical incident technique (Edvardsson and Roos 2001)

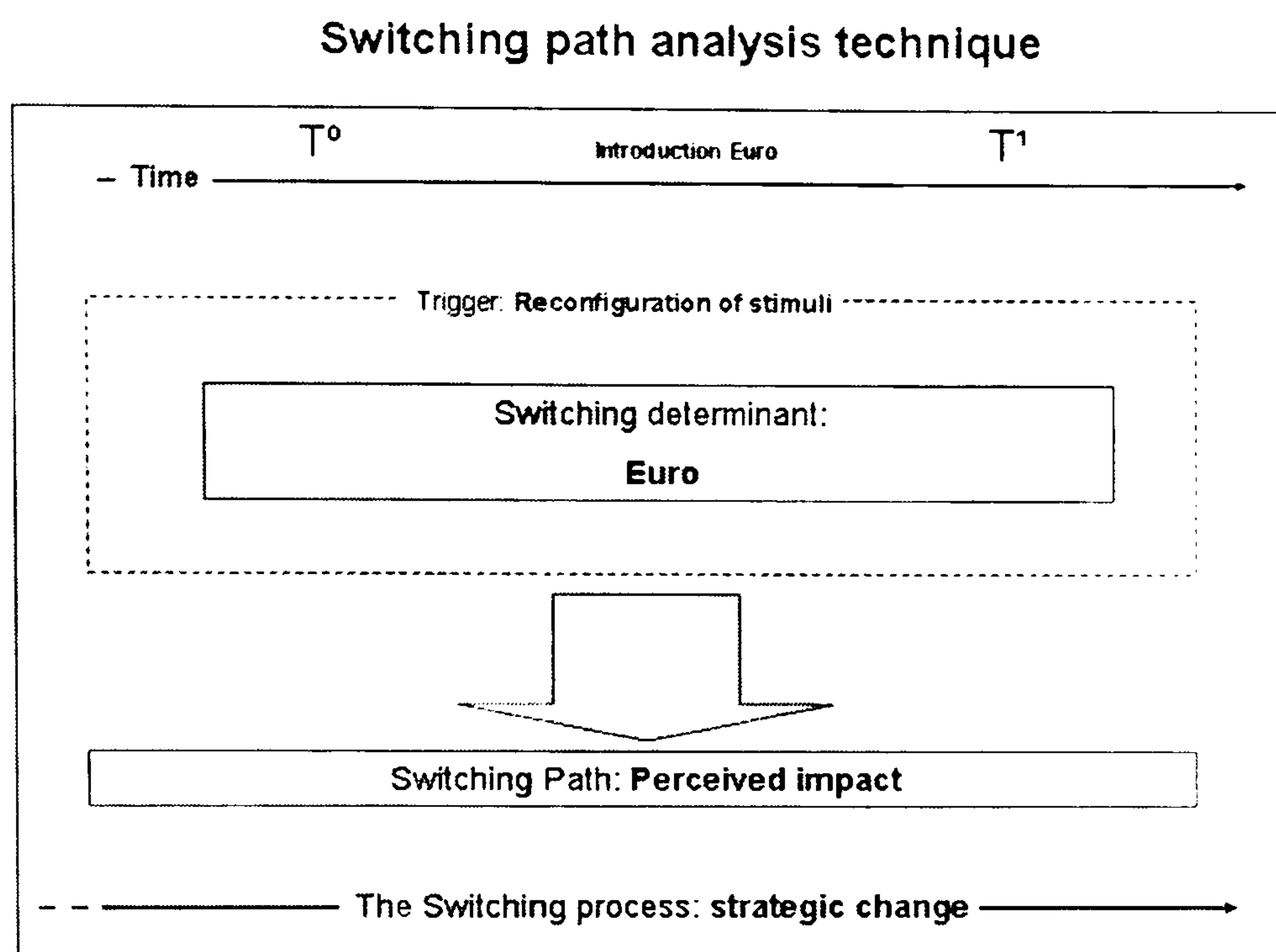


Figure 3.7: Switching Path Analysis Technique (SPAT)

3.4.3.2 The advantages of SPAT

SPAT bridges a number of development gaps that were present between existing critical incident techniques. The advantage of SPAT is that this technique puts emphasis on the consequence consideration of critical incidents in the time span when the incident is actually occurring (Edvardsson & Roos, 2001). The use of SPAT as a research tool for describing and analysing the impact of the Euro offers the following advantages:

- The focus is on information stored within or related to the Euro;
- The respondent determines the criteria for describing this relationship;
- Time is used as a process to partly explain this relationship;
- The respondent relates his or her actual behaviour.

Particularly the last issue provides an opportunity to determine whether the impact of the Euro was in fact critical for the organisation, that is, it caused a switch in strategy. In comparison to CIT, SPAT adopts a relationship view that focuses on the actual behaviour that is set in the context of the firm. The focus on one particular critical incident in realtime to some extent overcomes the most significant disadvantage of SPAT which is the difficulty to find ‘appropriate’ respondents with an unbiased view.

3.4.4 Reflexive interpretation model

As specified with the switching path analysis technique, what we aim to capture are plausible and coherent explanations through organisational actors' interpretations. A key concern in research attempting to examine cognitive processes is measurement. Given the researcher's inability to measure the process directly, alternative material such as written or verbal statements are used as indirect reflections (Barr *et al.*, 1992; Isabella, 1990). In this study we adopted elements of the interpretative reflexive model as suggested by Alvesson and Skoldberg (2000) to examine the organisational actors' interpretations.

By a reflective (reflexivity) approach Alvesson and Skoldberg (2000) mean that *'due attention is paid to interpretive, political and rhetorical nature of empirical research....Reflection is thus above all a question of recognising fully the notoriously ambivalent relation of researcher's text to the realities studied'* (foreword). With reflection Alvesson and Skoldberg (2000) refer to *'interpreting one's own interpretations, looking at one's own perspectives from other perspectives, and turning a self-critical eye onto one's own authority as interpreter and author'* (foreword). This definition of reflective research points out that there are four characteristics: interaction with empirical material, interpretations [*underlying meanings*], critical interpretation of perceptions [*both researcher and researched*], and reflection [*comparison with literature*]. The interaction between these different levels of interpretation is shown in figure 3.8.

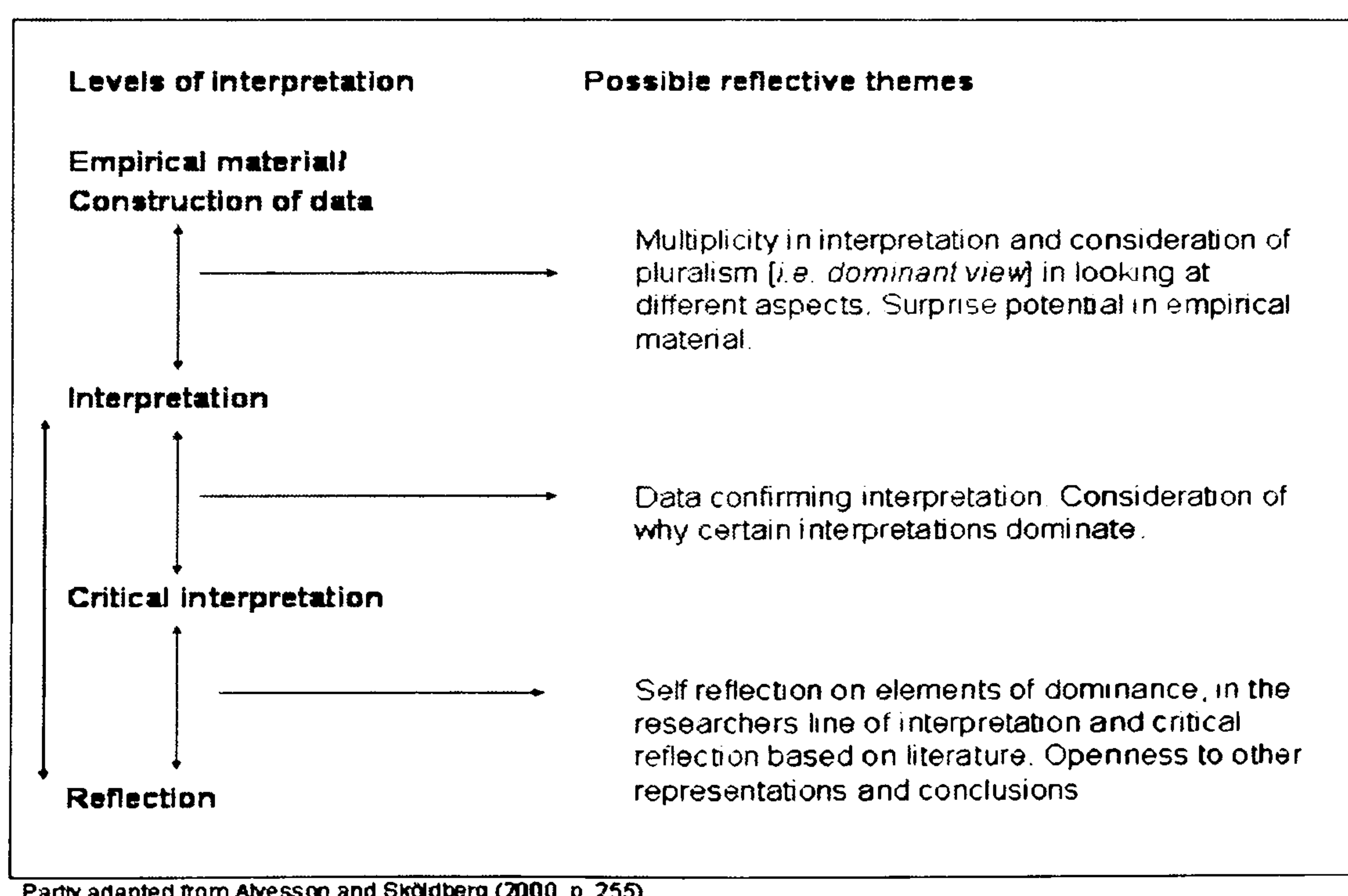


Figure 3.8: Interaction between different levels of interpretation

What we aim to explore with this version of Alvesson's and Sköldberg's model of reflexive interpretation is that interpretation is a complex process that theoretically can be build up from several levels; however, it is the relationship and interaction between these levels where the reflexivity occurs. To simplify this issue from a methodological point of view we distinguish two phases that together build up reflexive interpretation.

The first phase, the construction of data, is where the actual picture of empirical data is being created. This phase is distinct from the next phase in the way that it only contains low abstract levels of interpretation as many issues are still unclear. Hence, during this phase the aim is to construct a coherent set of data that can be compared with current theories or frames of reference in a guided and systematic way. As such the data construction will guide the researcher to a repertoire of references to compare the data with. This implies that choice of reference depends on the empirical material itself. It is therefore important that certain, unexpected, empirical data is verified during data collection and cross checked by using multiple sources of information. This verification process will be further elaborated in sections 3.7 and 3.8.

From a reflexive interpretation point of view it is important to recognise that it is the actor's reconfiguration of organisational and business environment conditions that will result in the intellectual involvement leading to the way in which interaction takes place. This implies that verbal statements include a reflection of the actor that ponders upon premises of thought, experience, observation and expression of the actor in question. It is therefore important that these perceptions are understood in terms of their relationship to the context in which they occur. Or as Pettigrew puts it *'In a complex, dynamic, and internationally conscious world a search for general patterns of change requires even more focus on temporal and spatial context'* (Pettigrew *et al.*, 2001 p. 697). This implies that sufficient attention needs to be given to the environmental context, without letting any of the contextual settings dominate defining the data collection. Thus, the focus of the research is narrowed and sharpened during the course of data collection. Similarly, theoretical ideas that frame descriptions are developed as the research proceeds. Yet, it should be noted that these descriptions are structured around the general interest in *"How managers of multinational firms perceive and respond to the impact of the Euro over time?"*

The main point of analysis at the second phase lies in the principle of reflection and interpretation as an interactive movement function. The interaction between different levels of interpretation implies that there should be a continuous back and forth comparison of interpretation and

interplay between empirical material and text [*literature*] to search for the underlying meanings. This is particularly important as measuring an interpretation shift over time requires an approach that invites participants to react critically to researchers' accounts. In addition, this better reflects the mutual process in portraying the interpretation shift. One of the main advantages of using this approach is that it allows us to think around possible properties of the categories. In other words, by continuously shifting the data around in our minds in a number of possible ways by continuously comparing it with the existing relevant literature, we can find ways to enrich the category itself. The various properties then specify how the different categories are interlinked in the relevant literature (Alvesson & Sköldberg, 2000).

3.5 The Case Study Method

'A research design is the logic that links the data to be collected to the initial questions of study' (Yin, 1994 p. 18). More specifically, it is concerned with defining the appropriate process for collecting, analysing, and interpreting data. From this point of view, a case study design is not a method as such but rather a strategy to conduct the research. The specific objectives of the research, the nature of the research topic, the research questions asked, and the characteristics of the research areas must be taken into account when forming this strategy (Golden-Biddle & Locke, 1997). In addition, the scope of the research, the availability of resources, the strengths and weaknesses of the researcher in terms of research skills, and time constraints also influence the choice and formulation of the case study design (Yin, 2003).

Given the many characteristics of choice, case studies have been associated with both qualitative and quantitative research. In this context Bryman and Burgess (1999) note that *'the case study represents one of the most common frameworks or research designs for the conduct of qualitative research. This is not to suggest, however, that the two should be regarded as more or less synonymous'* (p. xiv). For example, Klein and Myers (1999) cite examples of case studies that are consistent with the conventions of positivism (see also for example Yin, 2003; Yin, 1994). While, Stake (1995) identifies numerous examples that deploy case study design for the purpose of qualitative research (see also for example Eisenhardt, 1989a; 1991; Silverman, 1997). From these arguments, it is clear that a case study as a research design can be conducted as part of both qualitative and quantitative research. In this analysis, the use of case studies stems from an interpretative, and more specifically a contextualist perspective, linked to an in-depth, multifaced investigation, using qualitative research methods. This definition is intentionally broad, and will be discussed in great depth in the rest of this chapter.

3.5.1 The advantages and disadvantages of the Case study approach

Eisenhardt (1989a) and Yin (1994; 2003) both subscribe to the idea that the case study contributes uniquely to our understanding of individual, organisational, social and political phenomena. As Yin puts it *'in all of these situations, the distinctive need for case studies arises out of the desire to understand complex social phenomena'* (1994 p. 3). In other words, case studies are the preferred strategy to study a *'how'* and *'why'* question, when the researcher has little control over the event, and aims to focus on contemporary events (Yin, 1994).

Taking this into account, the immediate advantages of a case study are fourfold. First, it can furnish the dimensions of time and history to the study of social phenomena, thereby enabling the investigator to examine continuity and change in lifeworld patterns (Pettigrew, 1990). Secondly, case studies generate insightful stories that permit a better understanding of organisational complexity of social meanings and social actions (Van Maanen, 1979) from an insider's perspective (Eisenhardt, 1989a). Thirdly, it provides information from a number of sources and over a period of time, thus permitting a more holistic study and in particular to explore a *'previously little-studied area'* (Lee, 2000). Fourthly, a case study encourages and facilitates theoretical innovation (Stake, 1995; Yin, 2003). However, case studies also have certain disadvantages. In particular, there are limitations in terms of the generalisability of the outcome and the validity of the findings (Yin, 1994). These issues, and the proposed solution of triangulation to enhance validity, are dealt with more fully below.

3.5.2 Issues of generalisability

Pettigrew notes in this context that it is not the purpose of contextualist research to *'projecting generalisability as the sole outcome of the research, it is important to counterbalance that with the contextualist's desire for descriptive understanding'* (1985b p. 70). Based on this perspective we can make two points regarding the issue of generalisability in this study. First, a case study aims to develop rich contextual data (Bryman & Burgess, 1999). This is reflected in the idiographic approach, as also suggested by Pettigrew, which emphasises the understanding of unique aspects of particular phenomena from an individual-centred viewpoint within a natural environment context. And second, with the proposed research objectives and the nature of research questions, it is commonly agreed that case studies are useful in leading to general theoretical principles which can then form the theoretical basis for quantitative testing that further enables generalisation (Eisenhardt, 1989a; Yin, 2003).

3.5.3 Issues of Validity and reliability

The major concern with validity of case studies is ‘*whether the evidence which the research offers can bear the weight of the interpretation that is put on it*’ (Sapsford & Jupp, 1996 p. 1). Thus, to be valid, emphasis needs to be put on the fact that case research must be carried out with care and rigor. Due to the complexity of its subject matter, case research cannot be judged by the scientific criteria associated with experimental designs, but must be gauged by a broader view of science (Schneider, 1998). The chief question for the validity of case research is its plausibility. From this point of view several issues are raised that link the data plausibility to theory; the theory plausibly to generalisability; and is the conclusion plausibly to the difficulty to confirm ability. From this point of view, distinction is often made between four types of validity that are linked to the different stages of research³⁴: construct validity, internal validity, external validity, and reliability (e.g. Kidder & Judd, 1986; Yin, 1994; 2003). The way investigators deal with this issue is explained in the next section of triangulation and summarised in table 3.2. We use these constructs of validity as an important element of case study design.

Table 3-2: Case study tactics for four design tests

Tests	Case study tactic	Phase of research in which tactic occurs
Construct validity	<ul style="list-style-type: none">• use multiple sources of evidence• establish chain of evidence• have case study report	Data collection Data collection Composition
Internal validity	<ul style="list-style-type: none">• do pattern-matching• do explanation-building• do time-series analysis	Data analysis Data analysis Data analysis
External validity	<ul style="list-style-type: none">• use replication logic in multiple case studies	Research design
Reliability	<ul style="list-style-type: none">• use case study protocol• develop case study data base	Data collection Data collection

(Source: Yin 2003, p.34)

3.5.4 Issues of Triangulation

Triangulation is a process designed to enhance the validity and reliability of a case study (1970). It involves the use of multiple data collection methods to obtain various sources of evidence as a means of increasing the trustworthiness of the data (Blaikie, 1993). To achieve this Denzin (1978)

³⁴ For example, construct validity and reliability become the major concern during the data collection processes, internal validity is the key during the data analysis stage, and external validity is crucial to the research design.

proposed four types of triangulation: data triangulation, investigator triangulation, theory triangulation, and methodological triangulation.

With these types Denzin (1989) argues that data triangulation involves using diverse sources of data [*methodological triangulation*], so that one seeks out instances of a phenomenon in several different settings, at different points in time or space [*data triangulation*]. As such, triangulation is a creative approach that engages a continuing discussion of points of difference and similarity [*investigator triangulation*] that aims to maximise the depth and breadth of data collection and analysis and reduces the personal biases [*theory triangulation*]. Although it is argued that triangulation enables a more comprehensive understanding of the studied phenomenon, it is also acknowledged that this technique does not resolve the contradictions created by different sources of data. In response to this concern, Stake (Stake, 2000) points out that ‘*no observations or interpretations are perfectly repeatable, triangulation serves also to clarify meaning by identifying different ways the phenomenon is seen*’ (p.443-444).

3.6 The case study design

In determining the appropriate use of the case study method several conditions are proposed by several authors. In doing so not many authors focus on the process of the case study approach but instead go into detail about aspects of this process. For example, Glaser and Stauss (1967) detailed a comparative method for developing grounded theory, Yin (1994; 2003) described the design of case study research and Miles and Huberman (1994) propose several procedures to analyse qualitative data. Yet this has resulted in confusion about how qualitative data and case study research are linked. As a result, Eisenhardt’s study (1989a) aims to present clear guidelines that outline the case study process, by presenting a methodological framework for using case studies to build theories.

Although we will extensively make use of case study tools and guidelines as particularly suggested by Yin (1994; 2003), Glaser and Strauss (1967), Miles and Huberman (1994) and Pettigrew (1985b; 1990; 2001), the research design itself is largely influenced and guided by Eisenhardt’s (1989a) view of using the case study for theory building³⁵ to obtain a holistic view on the phenomenon studied. This adaptation provides us with a design that aims to gather contextual data at multiple analytical levels, whilst maintaining a focus on the phenomenon under

³⁵ This can follow the classic distinction made by Glaser and Strauss (1967) between substantive theory and formal theory as described in their book in chapter 7

investigation. Table 3.4 outlines the research design processes, conditions, and core resources in more detail. It should be noted that Eisenhardt’s framework goes beyond the several steps of case study design as suggested in table 3.3. Additional steps in relation to case study description, analysis, discussion and theory building are also suggested (Eisenhardt, 1989a; 1991). We will briefly outline the key features of Eisenhardt’s framework, and its implications bellow.

Table 3-3: Case study design processes and conditions

Process	Condition	Core source	Core section
Developing a level of theoretical sensitivity	Literature review	Glaser 1978, Eisenhardt 1989	2.1-2.5
Develop and clarify Research questions and objectives	Clarified precisely the nature of question, objectives, scope, and focus of the study including levels and unit of analysis	Eisenhardt 1989, Yin 1994, 2003	2.6, 3.1-3.4
Setup the case study protocol	Define the focus, the type of organisation that should be approached, and the data that should be gathered	Eisenhardt 1989, Pettigrew 1990	3.6 – 3.7
Define the case selection	Specification of sector, firm and individual participant choices	Eisenhardt 1989, Pettigrew 1990	3.7.2-3.7.3
Gaining and maintaining access	Gained approval for access and support from relevant organisational actors	Yin 1994, 2003	3.7.4
Crafting instruments for data collection	Data collection method including all sources of potential data availability, interview protocol, data management	Yin 1994, 2003	3.8
Stages of data collection	Dual time phase study, stages of data collection	Pettigrew 1985a	3.9
Data reduction	Systematic coding using principles of comparison, emergence of themes	Eisenhardt 1989, Glaser and Strauss 1967	3.10.1 – 3.10.2
Data analysis	Within case analysis, across case analysis, pattern matching, theoretical saturation and coding, comparison of data against frame of reference	Eisenhardt 1989, Miles and Huberman 1994, Alvesson and Sköldbberg 2000	3.10.3
Analytical induction	Comparison of the emergent concepts, theory with the extant literature.	Alvesson and Sköldbberg (2000), Eisenhardt (1989), Manning (1982)	3.10.4

3.6.1 The Eisenhardt framework

The framework proposed by Eisenhardt (1989a) requires clear research questions, a method of selecting cases in a purposeful way, using semi-structured protocols, developing a Gestalt model in the first instance based on literature. This Gestalt model is the result of an extensive literature review searching for theoretical constructs. These constructs are being studied by typical case

study related data collection methods. A way to analyse the variance of a particular construct, the collected data will be based on a more than one point criteria template, analysing cases against this template both on a within case and across case basis. Eisenhardt (1989) suggests that the findings should be compared with the literature and new hypothesis [propositions] should be developed before closing with the formulation of new theories.

Although it is arbitrary whether Eisenhardts' framework should be only used in its own right [*see for example Dyer & Wilkins (1991) who critique Eisenhardts' approach by focussing on the need for methodological rigor, and the appropriateness of multiple case studies to build theory*] it clearly has several aspects that are helpful to structure this study. Using the eight steps as suggested by Eisenhardt (1989) offers clear guidelines that can be followed to make sure that consistency is accomplished. This is particularly helpful when structuring elements of the case study such as the case study description and the data analysis.

In relation to the case study description and data analysis, Eisenhardt (1989) notes that '*...within case analysis typically involves detailed case study write ups for each site. These write-ups are often simply descriptions, but they are central to the generation of insight...*' (p 540). In particular the last argument seems to be of significant importance. Insight is according to Eisenhardt the result of describing the cases, continuously backing the research questions and constructs as found in the literature and developed in the protocol, doing so, will be of important value when searching for cross-case patterns. This process links to Alvesson & Sköldbberg (2000) viewpoints of reflexivity who argue that it is important to continuously make a comparison between theoretical constructs, data and frames of reference.

3.7 The field work design: Shaping the case study protocol

Following on from how the philosophical stance, the contextualism approach, and the research orientation influence the research design and the choice of a case study approach, this section highlights various processes through which the proposed objectives have been achieved. Drawing on current methodological literature, especially the work of Eisenhardt (1989), Pettigrew (1990), Stake (1995) and Yin (2003), a number of issues that outline the fieldwork preparation phase that shape the case study protocol require attention: the use of multiple case studies, theoretical sampling, selecting cases, and issues of access.

As such, we view the case study protocol not merely as a written plan, but also a reminder for the researcher about the rules and procedures, and a tool to enhance the reliability of a case study (Stake, 1995; Yin, 1994). Gummesson (1991) explains that a case study protocol should explicitly express how and why different sources of data are collected. In accordance with Yin (1984) a case study protocol containing an overview, procedures, research questions and a guide for the case study report was prepared for the case studies to be undertaken. As pointed out in table 3.4 the focus of this case study protocol is drawn from the review of literature and the contextualist theory as discussed in the previous sections of this chapter. In the following section we will further discuss the final research protocol for this study which has been used to enhance the richness of the data. The three sections after that will discuss the instruments used, the data collection phase and the data analysis phase respectively.

3.7.1 The use of multiple case studies

Methodological guidelines for case selection differ between single and multiple case designs. Although it is argued that the single case study approach is sometimes more suitable than the multiple case study approach (e.g. Dyer & Wilkins, 1991), Eisenhardt (1989) and Tsoukas (1989) remind us that indepth analysis of a single system does not preclude arriving at valid explanations and relevant conclusions, though they may be subject to concerns about external validity. Thus, the direct advantages of multiple over single case designs is that a multiple case design provides an opportunity to achieve replication of findings which allows for comparison, which, in turn, permit greater latitude for theoretical generalisability. This makes multiple case studies more suitable to create or alter theory because it allows identifying patterns of similarity and differences across cases, which ensures an opportunity for comparing findings that together enriches the theoretical picture.

However, it should be noted that with the research questions formulated and the adaptation of the contextualist approach, this study puts the emphasis on the features of the phenomenon under investigation in their context, and less so on proposing generalisations. Given this objective we thus concentrate on advanced conceptual and thematic generalisations. In doing so we follow the arguments of Glaser and Strauss (1967), Gummesson (1991) and Pettigrew (1990, 2001) who point out that the objective of social research is to explore phenomena in their context.

What this implies is that we are not seeking for literal replication, that is, choosing cases that have similar setting and are expected to achieve similar results and thus propose sweeping

generalisation (Yin, 2003). Instead, we search for theoretical replication by examining different settings where we expect different outcomes as we are interested in the way variability in context influences the constancy in process or outcome (Pettigrew, 1990). Hence, the replication logic itself does not provide the methodological guideline for multiple case selection, it is the sampling strategy (Patton, 1987) that sets the similar or contrasting objectives. The next section will synthesize the sampling criteria that aided the case selection.

3.7.2 Theoretical sampling criteria

Miles and Huberman (1994) state that sampling has two key purposes: (1) creating a sample frame to help uncover the basic processes that underpin the study and (2) setting clear boundaries how the research questions will be studied. This implies that the quality of the multiple case study design is based on the appropriateness of fit between the purpose of the research and the phenomenon of inquiry. To satisfy this fit, it was necessary to build a set of indicators that could identify the way the proposed research questions could be studied in practice. These indicators can be termed as theoretical sampling criteria (Yin 2003) as the cases are selected for theoretical and not statistical means (Glaser & Stauss 1967). This suggests that the selection of case study site must primarily emphasise theoretical relevance in relation to the chosen research purposes and questions (Eisenhardt 1989). This has two principle aims; (1) to ensure that all the key constituencies of relevance to the subject matter are covered; and (2) to ensure that, some diversity is included within each of the key criteria so that the impact of the characteristic concerned can be explored.

In this thesis work, one overriding factor in criteria setting emerged, this being cases that could yield a situation where the process of interest – the perception and response to the impact of the Euro over time – would be as ‘*transparently*’ observable as possible (Patton, 2002; Pettigrew, 1990). In this instance, similarity for a range of parameters was desirable in order to increase the likelihood of meaningful cross-case patterns emerging, and to ensure that the impact of the Euro could be investigated within a specified context. Hence, consistency for a range of similar parameters drove the initial selection. The following three key parameters drove the commonality of this study;

- The sample firms had to have a significant commitment to all Eurozone countries to provide the comparability of marketing aspects in this zone as well as the international experience, the importance of the Eurozone, and the existence of a European strategic posture;

- The sample firms had to operate in the consumer market to increase the importance of the introduction of the Euro at a consumers' level;
- The sample firms needed to sell tangible products that were purposefully standardised or differentiated in the Eurozone countries.

Besides being transparently observable, we followed Pettigrew's (1990) and Eisenhardt's (1989) advice to conduct comparative case studies of polar types. This allows us to reflect the opposite extremes of the phenomena studied. While the first argument of '*being transparently observable*' controls the possible sources of variation to some extent by looking at a '*homogeneous*' sample (Patton 2002) setting the context in which the impact of the Euro is studied, the second argument of polar types advocates that we do so from two theoretical extremes (*not exceptions*) perspectives. This implies that there is a deliberate strategy to include issues of variation that will allow us to identify central themes that cut across the variety of cases.

3.7.3 Case site selection

On the basis of the discussed criteria for finding the case, the selection was conducted through serious consideration on firm and sector level. It is essential to point out that clearly the selection of the case through criteria related to all the above mentioned indicators represented a very difficult task. In this study, the selection of the case was conducted through applying first the type of firm level criteria, i.e. commitment to all Eurozone countries. From this point of view we decided to focus on MNEs that were well established on a global level, and therefore share characteristics such as having operations, subsidiaries, or investments in a large number of countries worldwide in which they are selling similar type of products that are new and/or technically complex.

With the selection of polar types we focussed on industries that were predominately selling standardised or differentiated products. The rationale for this choice was based on the well established argument of the expected increase in price transparency in the Eurozone after the introduction of the Euro (e.g. Verdin & Van Heck, 1999; van Everdingen & Bamossy, 2000). From this point of view we linked price transparency to the comparability of products across countries as a source of impact. In other words, we expected that the impact of the Euro could be linked to high and low experience levels (Pettigrew 1990), whereby high experience levels were associated with a higher impact potential of price transparency on the strategy of the multinational. Whilst we could have chosen to compare global products with local products

within one industry to investigate this proposition, we wanted to ensure that the results were not particular to a specific company or industry (see for example Barr, 1998; Bartunek, 1984; and Isabella, 1990). Thus, we decided to compare two industries that would characterise the polar extremes.

The selection of FMCG versus durable consumer goods was deemed to be an appropriate to investigate variation as it is often used to compare and contrast between standardised and differentiated products (e.g. Shoham, 1995). For this study it was particularly important that the differences between the firms and industries would outline on many potential impact aspects such as technology, price sensitivity, consumer awareness, product diversity and legislation. With this in mind, four MNE’s in the food industry and four MNE’s in the CE industry were selected.

The choice of four companies per industry was based on two additional criteria that aimed to further improve the comparability of the cases and increase the variation of the case design as a whole. First, based on the debate on internal inertia on change (chapter 2) we wished to explicitly include the key determinants causing internal inertia in the case study design. We expected that differences in structural form and coordination and control of decision making would significantly influence the way the impact of the Euro was perceived and challenged. We therefore made a selection of two EHQ and two subsidiaries within each industry to would allow us to obtain a multi level of analysis both within the industry as across the industries. Second, an additional selection criterion was based on nationality as financial dependency upon the Euro was expected to lead to an additional role for Eurozone based HQ. In addition, we did not expect that the origin of the subsidiary would play a significant role, other than it would lead to an additional role of the HQ. Thus, to add this element to our design we made sure that one of the two HQ within both industries was from one of the eleven Eurozone member countries. Based on these selection criteria we came up with the case study design as presented in table 3.4.

Table 3-4: Profile of the case study design

	Food Industry		Consumer Electronics Industry	
	Headquarters	Subsidiary	Headquarters	Subsidiary
Eurozone nationality	1 MNE	0, 1 or 2 MNE	1 MNE	0, 1 or 2 MNE
Non-Eurozone nationality	1 MNE	0, 1 or 2 MNE	1 MNE	0, 1 or 2 MNE

3.7.4 Gaining and maintaining Access

Negotiating access plays a key part at the early stages of the research. The way in which access is negotiated on the ground will eventually determine the criticality of success of the study (Bryman, 2001). Accordingly, much attention has been devoted to establishing the short list of potential case study sites (see table 3.5). The short listed companies were primarily based in the Netherlands. However, the complexity of finding Multinational Enterprise with EHQ in the Netherlands forced us to add some Belgium and Germany based HQ to improve the probability of access to this type of case study site. The selection of these multinationals was the result of a Euromonitor database search (conducted November 2000) that provided information regarding turnover, number of employees and the countries where the multinational hosted subsidiaries. Additional information regarding origin and EHQ location was based on a search on the related multinational website. Initially an email was sent to the 44 multinationals, in order to find out the possibilities of conducting a case study. As a follow up, a letter was sent to the CEO or TMT members, requesting their participation.

Table 3-5: Contacted Companies

	Consumer Electronics Industry		Food Industry	
	Headquarters	Subsidiary	Headquarters	Subsidiary
Eurozone nationality	Philips	Bang & Olufsen; Grundig	Dumeco; Grolsch; Heineken; Mars; Nutricia Dairy & Drinks Group; Royal Numico; Unilever	Koninklijke Van Melle; Koninklijke Wessanen; Cargill Holding
Non-Eurozone nationality	Akai; Hewlett-Packard; JVC; Kenwood; Murata Electronics; Pioneer(Belgium); Sony; Toshiba; Sharp (Germany) Mitsubishi	Canon; Compaq; Denon; Ericsson; Nokia; Panasonic; Samsung; Sharp; Siemens; Pioneer	McCain Foods; Sara Lee Household and Bodycare (Germany); Sara Lee/Douwe Egberts; Mitsubishi	Granaria Holding; Hero Nederland; Kraft foods Holland; Nestlé; Maple Leaf Holland; Proctor and Gamble

The second wave of accessing commenced soon after rejections or two weeks after no response was received from the first wave. With a slight shift in focus, marketing and management departments, and Euro project team members were targeted. Instead of writing to all multinationals, phone calls were made to find the appropriate contact and discuss access in person. The largest multinationals in terms of turnover and employees were contact first. Calling the potential case site offered the advantage that the objectives of the research could be explained in more detail, and access could be negotiated. In addition, the spokesperson was also helpful in setting up introductions with their counter parts in the same or other departments. The topic being the Euro, the spokesperson could often direct the researcher to (additional) Euro project team

members. The research question necessitated the need to pre-specify additional informants if the Euro project team members were not related to management functions. These included, only top management team level managers as they could provide the information in relation to the perceived and challenged strategic impact of the Euro.

The additional informants were contacted short after the first telephone contact with the case site. Based on the success rate, the researcher preferred to speak to the informant directly to discuss the purpose and objectives of research, and also to make sure that the informant could provide the requested data. If the informant was difficult to get in touch with, the researcher chose to communicate firstly by email, fax or letter, prior to making a second attempt to contact the informant by phone.

The researcher also confirmed all appointments by letter or fax. This confirmation provided the informants with additional information about the study to be obtained. This was useful from an ethical point of view (Pettigrew, 1997) as it confirmed the real aim of the research. A short period after the letters were sent the informant was contacted for a last time to confirm his/her participation in the study. During this contact informants were made aware of formal issues in relation to the data collection. Any concern about the sensitivity of the information to be collected and the estimated demands the data collection would put on their time was discussed.

During the course of time, several companies that were short listed for sample selection did not provide consent to participate. Some companies initially expressed interest in participating, however, changed their interest over time due to developments in their business environment. For example, Numico, Dumeco, and Cargill Holding restrained their co-operation due to the foot and mouth virus that was found at Dutch cattle in February 2001. At another company, Ericsson, the negotiations were at a far more advanced stage prior to being cancelled. A research contract was signed, documentation related to the company's background and the specific project was collected, and interview questions were developed. However, Ericsson initiated redundancies and an announcement to cut 8,000 jobs was made in the middle of February. The case study eventually had to be abandoned as several Euro project team members were made redundant.

In January/February 2001 a research agreement was concluded with nine companies (see table 3.6). Despite the fact that all nine selected companies matched the previous outlined sample criteria, it was decided to exclude Mitsubishi from the case study design and instead use this

company as a pilot study site³⁶. Following the concept of theoretical sampling the eight sites were selected for their similarities and differences (Huberman & Miles, 1994; Orlikowski, 1993). In terms of similarities the rationale behind the selection of the companies was twofold. First, in terms of design scope, the selected companies each fulfilled a specific function in the case study design. Second, unlike some other cases that were included in the short list, the selected companies were producing comparable products within each industry.

Table 3-6: Selected Cases

Company	Division	Origin	Function	Key Business	Employees ³⁷ 2003	Turnover ³⁸ mil \$ 2003
Philips	CE	Dutch	EHQ	Consumer Electronics, SemiConductors, Lightning, Medical systems	164,438	36,505.0
Sharp	CE	Japanese	Subsidiary	Consumer Electronics, SemiConductors	46,633	16,714.8
Pioneer	CE	Japanese	Subsidiary	Consumer Electronics	34,656	5,935.6
Kenwood	CE	Japanese	EHQ	Consumer Electronics	4,877	1,882.2
Nutricia	Food	Dutch	EHQ	Food and Dairy	29,084	4,156.8
Hero	Food	Swiss/German	Subsidiary	Food and Dairy	3,587	1,791.2
McCain	Food	Canadian	EHQ	Frozen Food	20,000	4,749.4
Nestlé	Food	Swiss	Subsidiary	Food and Dairy	254,199	70,823.1
Pilot study						
Mitsubishi	CE/Food	Japanese	EHQ	Consumer Electronics; Food and Dairy	6,307	12,273.2

3.8 Instruments for Data Collection

The following discussion concentrates on the theoretical issues related to the tools used for the fieldwork. These include the choice of interview structure, the formulation and piloting of interview questions, the selection of interviewees, group discussion, and document analysis. The combination of multiple data sources and perspectives enhanced triangulation (Pettigrew, 1990).

3.8.1 The Interview method

The different traditions of qualitative research have resulted in a diversity of perspectives on in-depth interviewing. In particular there are debates about how knowledge should be constructed in

³⁶ This choice was based on the cooperate function of Mitsubishi in the Netherlands. The European Headquarters of Mitsubishi controlled three European divisions: Electronics, Cars, and FMCG. The FMCG division was specialised in the import and export of European and Japanese food products. A comparison of both Electronics and Food industry could be made on a broad scale.

³⁷ Source: <http://www.hoovers.com/free/>

³⁸ Source: <http://www.hoovers.com/free/>

the interview (Rubin & Rubin, 1995), and about how active or passive the interviewer should be (Denzin, 1989). This debate resulted in various types of interview that can be positioned on a continuum according to the degree of structure and the nature of interview questions (Brenner *et al.*, 1985). On one side of the continuum, interviews based on predetermined questions and standardised schedules are commonly termed structured interviews or questionnaires. The other side of the continuum represents unstructured interviews in which interviewers have a general area of interest and the interviewing process is determined by the flow of conversation (Wengraf, 2001). The middle ground of this continuum consists of semi-structured interviews that contain a clearly defined purpose with some degree of flexibility in the wording and ordering of questions (Wengraf, 2001).

In this study, the main aim is to understand how the impact of the Euro is perceived and challenged by unveiling how the respondents construct, categorise, interpret and respond to the impact over time. To gain insight in this process we deemed it appropriate to adapt an in-depth interviews technique that was based on a semi-structured foundation with open-ended questions. This approach yields the important advantage of flexibility to permit topics to be covered and allow responses to be fully probed and explored (Yin, 2003). Semi structured interviews also increase the interactive nature between the researcher and interviewee, and therefore makes it more likely that the respondent will talk freely and provide the researcher with the desired insight (Wengraf 2001). This argument can even be explored further during the interview as different techniques to achieve depth of answer in terms of exploration and explanation can be obtained (Yin, 2003) that further underpin previous reasons, opinions, beliefs, or meanings given to subjects (Rubin & Rubin, 1995).

3.8.1.1 Formulation of Questions

The adapted flexible design of interviewing implies that the design takes shape gradually over time as the researcher combines meaning with data. As Rubin and Rubin (1995) point out: *‘Concerns that appear important at the beginning of the research may seem less vital later, and points that seemed unimportant when the study began may turn out to be valuable’* (p. 43). In other words, the advantage and disadvantage of a semi structured interview is that questions are changed and refined as the data collection proceeds. In this research the early stages of interviewing we concentrated on gathering preliminary themes and additional ideas. The early interview schedule was based on an examination of the project background for each case study and the gathering of relevant knowledge of the business sectors concerned. Particularly

information from archival records and documentation was used as this provided a broad coverage over a longer time span. This helped to articulate critical issues for inquiry at the earliest possible stage while the formulation of appropriate interview questions could only be enhanced through experience. The testing of the interview guide in the pilot case setting resulted in important adjustments. Predominantly we could alter the question in order to minimise misinterpretation. As a result the early interviews guide as outlined in broad terms in figure 3.9 did not change significantly in structure over time. However, at a later stage we concentrated on limiting the number of themes to be explored, by emphasising on underlying building blocks, and concepts that further enhanced testing of our understanding of those themes. Most essentially the sequence and wording of the questions changed over time. While the interview guide provided the template for the interviews, it should be noted that these were tailored to correspond the respondent and organisation.

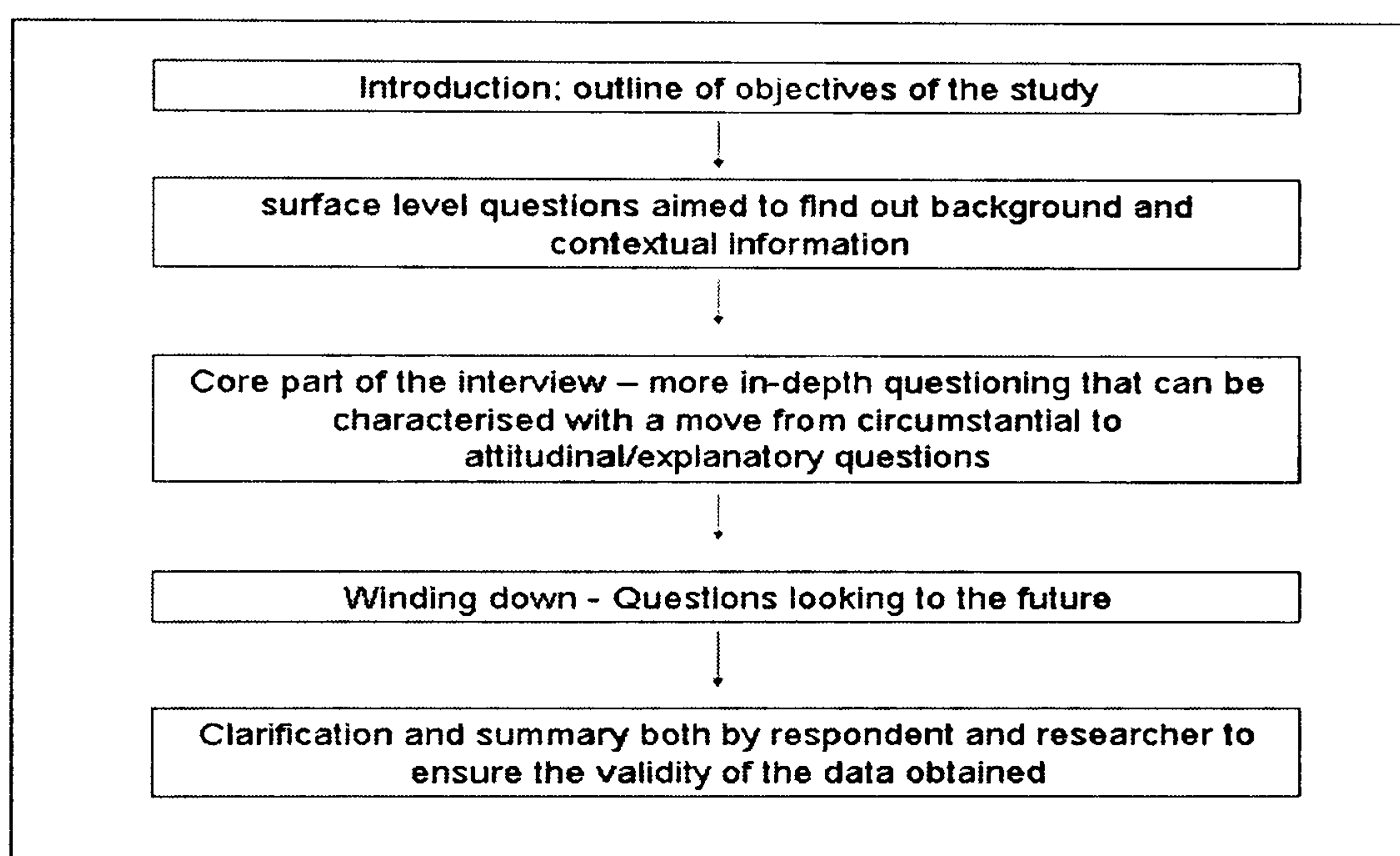


Figure 3.9: Interview structure guide

It was found important to ensure that throughout the interview the objectives of the study were clarified to the participants over and over again. In other words, we continuously verified that the understanding of the informant about the subject in question would mesh up with the interest of this study. Several questions were repeated in a different context to verify important themes and to ensure validation. In addition, the questions itself were kept short and easy to understand. The questions were non leading and open ended to encourage the respondent to elaborate and to be descriptive.

3.8.1.2 Selection of Interviewees

As pointed out in the previous section, semi structured interviews allow reformulation of questions. In terms of interviewee selection a new line of inquiry might imply that different people needed to be talked to. In our design we therefore followed a semi structured approach in terms of interviewee selection. Several interviewees were selected before data collection took place, while others were added during collection. We believed that this would allow exploration of new topics while some the consistency in type of respondents would keep the research organised and focused. From this point of view, it was anticipated that structural processes in relation to the Euro influenced several departments within the firm. The degree of priority and importance given to the Euro could therefore be based on the level of commitment of each department. This led to different roles and responsibilities of the various Euro groups in the project organisations across the firms. Although the primer focus was on strategic processes at the top of the organisation regarding the perceived and challenged impact of the Euro prior to its introduction, we also found it important to take into account how these strategic decisions and allocations flew out of activities taking place at other levels of the organisation. In other words, pluralism in the selection of the interviewees (Pettigrew, 1990) was considered important as different people from different layers within the organisation could offer different insights into the perceived and challenged impact of the Euro. Accordingly, in addition to at least three key managers dealing with strategic issues in relation to the Euro, we also aimed to interview financial managers and IT managers in depth during the first period of data collection.

The same method was used during the second data collection which took place in October 2002. However, there was a slight shift in focus as the impact of the Euro after its introduction moved away from the initial anticipated impact on financial, accounting, and IT systems. Hence, the focus of the second data set was purely on the impact from a strategic point of view. Accordingly, we focussed on TMT member and strategic (often marketing) managers to find out how these managers perceived and challenged the impact of the Euro after it was introduced. Ideally we spoke to the same managers we interviewed in the first round, however, for several reasons this could not always be made possible. In that case we replaced the respondent with a manager in similar position. In addition to these interviewees, we deemed it appropriate to add at least one other interviewee (TMT) per firm to increase the validity.

Despite the pluralistic approach adopted in this study (see also section 3.8 for more details), we were aware that a significant difference in organisational characteristics in combination with the

financial dependency and importance given to the single currency would indeed result in a firm specific adaptation process that was characterised by a different ‘Euro project team’³⁹ formation. To avoid bias we aimed to replace respondents with similar informants even if they were not an ‘*active member*’ of a Euro team as such. Although this has resulted in slight differences in selection of respondents (see table 3.7), we believe that those interviews conducted led to theoretical saturation (Glaser and Strauss, 1967) as we were able to obtain multiple perspectives about the Euro adaptation process from different departments of the organisation.

3.8.2 Group Discussion

Group discussion⁴⁰ involves a data collection method that is in some important respects very different from in-depth interviewing (Morgan, 1997). In this study we used focus groups of typically three participants in which each participant presented their own view about the impact of the Euro, and listened and reflected on the views presented by other participants. The participants that joined this group discussion were those that were interviewed separately before the group discussion took place. The key advantage of this method was that previous (individual participant) data could be validated and new data could be generated through the interaction between group participants, who ask questions, seek clarification and comment on what they have heard. The role of the researcher was to guide the discussion and make sure that all participants would participate; however, as Krueger and Casey argue (2000) this role was often ‘taken over’ by the group participants which put the researcher in the positioning of listening in. This resulted in an arising spontaneity that particularly revealed more from the participants’ frame of reference. Only when some participants did not get the chance to contribute as (often) one participant was dominating the discussion, the researcher adopted a slightly different role whereby the dominating participant was restrained in order to shift attention. In addition, the aim of the researcher was to create a reflective environment by encouraging in-depth exploration of emerging issues.

3.8.3 Documentary Data

In addition to group discussion and interviewing, another source of data used in this study is documentation, including letters, written reports, administrative documents, newspapers, internet and other relevant studies (Yin, 2003). Yin (1994) suggests that documentation is important to ‘*corroborate and augment evidence from other sources*’ (p. 81). In this study, letters, written reports, memo’s, administrative documents, annual reports, and the internet were used either for

³⁹ i.e. those responsible for a smooth changeover to the Euro from a strategic, financial, technical point of view

⁴⁰ The phrase group discussion is used as being synonymous with focus group

its substantive contents which would assist preparation of interview or to illuminate deeper meanings to verify and validate previous collected data. However, it is often noted that documentary data have their weaknesses and should therefore be treated with caution due to its potential selectivity of the facts provided (e.g. Pettigrew, 1990; Stake 1995). Taken this into account, documentary data was useful to;

- establish familiarity with the organisation;
- Provide a provisional list of key people to interview;
- Enable the construction of a preliminary chronology of changes that occurred in the past and raised issues to discuss during interviews;
- Provide corroboratory evidence about the phenomena studied, confirming and replicating data from the interviews or group discussion;
- Provide information to construct synergetic views.

To obtain access to the different data sources, the researcher firstly asked the interviewee if there were any important documents in relation to the discussed issues after the interview took place. In addition, this question was also repeated after the focus group discussion. Further archived material was obtained after permission was granted by the responsible people. Furthermore, with the exception of Pioneer and McCain the researcher was also granted access to the intranet to obtain particular reports and copies of speeches.

3.9 Data collection process

The previous discussion concentrated on the theoretical issues related to the tools used for the fieldwork. This section will focus on the practical aspects of the data collection process. Given the nature of qualitative research it should be noted that the writing up of the fieldwork experience can only be a highlight of some of the significant elements of this journey.

3.9.1 Preparation and protocol test

Before the data collection itself was conducted, it was important to become acquainted with the CE sector and the food and dairy sector as well as the organisations itself. This desk research involved a review of historic and current reports, internet based information and other public available information such as newspapers and magazines. This sort of preparation was not designed to pre-empt what would come up in the interview or focus group discussion, instead it was perceived as helpful for the researcher to begin thinking about the sort of direction the

interview or group might take. This preparation to some extent shaped the case study protocol as one research guide was designed for each industry.

3.9.1.1 Pilot Case Study

As Rubin and Rubin (1995) point out there is a limit to the extent to which researchers can prepare an interview, without actually testing it in practice. For previous mentioned reasons a pilot study was conducted at Mitsubishi in February 2001. Conducting a pilot case study was an important part of the research design. The immediate advantages were fivefold. First, it served as an effective approach to assess the appropriateness of the case study protocol. Second, it helped to determine whether the interview questions suit the research objectives. Third, it provided a tool to identify and define topic areas that were previously unclear or unknown to the researcher. Fourthly, it helped to redefine questions definitions as certain concepts were misinterpreted by the respondents. And finally, it helped the researcher to develop a hands-on research skills and experience.

Particularly the later issue shows how the previous issues are integrated as the pilot study provided an excellent opportunity for the researcher to develop and improve his formulation of interview questions, interview techniques, questioning sequence, as well as his observation and writing skills during the interview and of managing data after the interview. These skills could not have been developed without the real time experience of the pilot study.

Among many issues the key issue the pilot study revealed was that the researcher needed to be more critical about the unit of analysis. It was found, for example, that the impact of the Euro was often associated with pricing strategies of products. While many initial questions were about general impact perceptions, the respondent put these questions often into a product-market relationship perspective. A clear distinction needed to be made in product types [*i.e. standardised versus differentiated*] and buyer groups [*i.e. business to business and consumer products*]. This observation led to some significant changes in the interview design. The new interview schedule was drafted and pre-tested through a focus group interview, to obtain further clarity, and to make sure the questions were addressed accurately.

Another vital lesson learned during the pilot study was the importance of trust building in relation to the process of data collection. Based on the type of information the study aimed to gather it was important that this information was obtained in interviews with individuals that felt comfortable

to discuss these issues openly and in-depth. This pointed out that the research ethics about how to acquire and disseminate trustworthy information in ways that they cause no harm to those being question needed to be taken care of prior to interviewing. The researcher chose to develop a case study protocol that was written in non-academic language that would be presented to the interviewee to avoid deception and to ensure the purpose of the study obtained. This document also contained asking permission to tape record the meetings. It was found that such an agreement between the researcher and the interviewee particularly helped to increase trust building as it reassured all information providers that what they said would be treated in the strictest confidence.

3.9.2 Time frame and details of data collection: T0 and T1

For distinctive reasons as mentioned in section 3.4 and particularly elaborated in section 3.4.2.1, the data collection was conducted over a time period of two years, involving preparatory fieldwork and two main empirical research stages (see figure 3.4). The timeframe was guided by pragmatic considerations in order to clarify the beginning and end of data collection. As explained earlier, our timeframe focussed on one major breakpoint (Pettigrew, 1990), the introduction of the Euro at a consumer level. The data collection stages were designed around this breakpoint. From February 2001 to August 2001 (T⁰), semi-structured interviews, focus groups and documentations were used to investigate the anticipated impact of the Euro before its introduction. The time spread was chosen to make sure that the Euro was an issue of importance, given its compulsory introduction date of changeover in July 2001 (see figure 3.3.). The follow up took place 10 months after the introduction of the Euro in October 2002 (T¹) to find out how the impact was perceived and if the interpretations and challenges changed over time.

A systematic phase wise approach was followed for data collection, following the models of sensemaking and strategy formation as explained in section 3.4.2.3 and 3.4.2.4 respectively and integrated in figure 3.1. Following the argument that there is a sequential interconnectedness among phenomena in historical, present and future time (Clark, 2000; Pettigrew 1990) the first phase concentrated on obtaining an understanding of the organisational structure, the style of management and the companies' business environment. As such, this phase was seeking insight in broad topics of relevance that funnelled towards more specific and concrete data. The research was conducted in iterative way across various levels within the organisation. The researcher scheduled the interviews based on availability of the respondent which implied that in a non chronological order the various case study sites were visited to complete the first phase. In total

sixteen interviews were conducted with marketing managers and/or relevant senior managers (see table 3.8). Additional data sources in terms of documentary were drawn upon to triangulate and accrue further information to that derived from the interviews.

Table 3-7: Interview overview T⁰ + T¹

	T°					T¹		Total
	Phase 1		Phase 2		Phase 3	Phase 4		
Manager ⁴¹	MM	TMT	IT	FM	SM/MM	TMT	TMT/MM	
Philips	1	1	1	1	2	3	3	12
Sharp	n/a	2	1	1	1	3	3	11
Pioneer	1	1	n/a	1	2	2	3	10
Kenwood	n/a	2	1	1	1	3	3	11
Nutricia	1	1	1	1	2	2	3	11
Hero	1	1	n/a	1	2	2	3	10
McCain	1	1	1	n/a	1	3	3	10
Nestlé	1	1	1	1	2	3	3	12
Total	6	10	6	7	13	21	24	87

The second phase of fieldwork was conducted as soon as the first phase finished, which implied that there was an overlap of phases across the sites for a short period of time. The second phase concentrated on the implementation process of the Euro from a technical, financial and sales perspective. The main sources of data were managers that were member of the company ‘Euro project team’. In subsidiaries these teams often existed out of two or three people, who were concerned with the implementation of the Euro at the targeted levels. In the HQ, particularly in the Eurozone originated HQ, these project teams were larger in size. In total we conducted twenty five interviews with Finance, IT, and Marketing managers (table 3.7). Although the interview format varied per participant, three broad areas could be covered using the same guidelines. These areas were related to changes in financial management system and its importance to change initiatives, changes in the IT and its role in change initiatives, and the commercial implementation process of the Euro.

At the end of phase two, summaries of case reports were written in Dutch describing the facts obtained in the first two phases regarding the organisational and business environment context and the company facts regarding the ‘technical’ changeover process towards the Euro. Also highlighted were the first decisions the company made to deal with the strategic impact of the Euro. This section could typically be described as the perceived and challenged impact of the Euro on pricing strategy. This case reports were presented to key informants to validate and verify

⁴¹ MM=Marketing Manager TMT= Top Management Team IT=Information Technology Manager FM= Financial manager SM= Sales Manager (often marketing manager)

the information obtained. Some specific elements of this report, i.e. the impact of the Euro on the IT system of the company, were emailed to the responsible informant to check for correctness.

In the third phase we focussed on if and how strategic change took place as a result of the introduction of the Euro at a consumers' level. The primer aim was to find an explanation for continuity or change through the eyes of senior managers of the company. In total eighteen senior managers were interviewed (see table 3.7). These were the same senior managers interviewed in phase one plus at least one additional senior manager. The interview guide, although slightly different per participant/company, was characterised by two stages. The first stage aimed to explore the strategic perception by looking at issues that were related to anticipation of the impact of the Euro, and the identification of strategic options how to respond. The second stage was more concerned with the actual strategic steps the organisation had undertaken prior to the introduction of the Euro and why the firms have taken the steps they did. After these interviews were conducted we invited two or three senior managers and one or two middle managers to participate in a group discussion as described in section 3.8.2. The repeated cycles of data collection within each company in T⁰ took an average of four to seven months.

The fourth and final phase took place after the Euro was introduced at a consumers' level. We followed an iterative approach, that is, major themes were identified based on the T⁰ data collection and were used as a guide for the T¹ data collection so that they could be modified or built upon (Glaser & Strauss, 1967). The purpose of this phase was similar to phase three. In other words, the primer focus was to find out what senior managers revealed about the perceived impact of the Euro after it was introduced and if, how, and to what extent this perception influenced the strategy of the firm; based on which additional steps were (going to be) taken in response to the identified market changes. In total 24 senior managers were interviewed individually (see table 3.7) and simultaneously as participants of the group discussion in October 2002.

3.9.3 Data Transcription

The interviews and focus group discussion were recorded through written notes and tape recording. Two steps were undertaken to improve the possibility to tape record the interview. First, detailed information was sent to the respondents before the interview explaining the nature of the research and the academic purpose of the interview. Second, a confidentiality report was set up and presented by the researcher before the interview started to guarantee the purpose and

trustworthiness of the study. Only two marketing managers out of the total of 56 people⁴² were reluctant to be tape recorded. Written notes were made during those meetings. This did not further affect the focus group as both managers did not participate in these discussions.

Prior to descriptive analysis and coding [see next section] two features of qualitative data management were undertaken. First, the interviews were transcribed and translated into English by the researcher himself. This guaranteed the correctness of the translation, avoiding potential linguistic biases and making sure that the essence of the meaning and the spirit of the interview were not lost. Second, the substantive content of the interviewee's account were described by the researcher and were given meaning short after the interview was conducted to ensure that detail of meanings were understood over time.

3.10 Data Analysis

With the detailed contents of the analysis being outlined in section 3.4, the purpose of this section is to detail how the data was analysed by explaining the techniques obtained. Following Glaser and Strauss (1967) argument that analysing data is an interactive operation that starts from the moment data were collected and organised, we continue here the previous discussion on data management by explaining in more detail how the data was categorised, displayed, interpreted, and analysed at iterative stages with built in validation. In this context Eisenhardt (1989) notes that *'a striking feature of research to build theory from case studies is the frequent overlap of data analysis with data collection....most [researchers] maintain this overlap'* (p. 538). We believed that the suggested overlap was an important feature and should therefore explicitly be included in the case study protocol as it could be important source of data verification. The following table outlines the framework adopted in this study to analyse the data.

⁴² 9 senior managers were interviewed 3 times in phase 1,3 and 4, 7 senior managers were interviewed twice in phase 3 and 4, 6 marketing managers were interviewed twice in phase 1 and 3. The other 34 managers were interviewed once.

Table 3-8: Data analysis model

Step in analysis	Core activity	Approach	Aim	Key reference
Data management	Major theme definition	The data collected from various sources was categorised and analysed based on open coding	Data reduction	Strauss and Corbin (1990), Pettigrew (1990)
Data display	Writing up analytical narratives	Analytical chronologies using suitable categories for different companies	Allow the unique patterns of each case to emerge	Pettigrew (1990), Stake (1995), Yin (2003)
Data coding and pattern matching	coding	The data collected from various sources was categorised and analysed based on axial coding and selective coding	Optimise the identified themes	Strauss and Corbin (1990), Pettigrew (1990)
	Compare patterns of similarities and differences	Look for group similarities and inter-group differences	Verifying that the emergent relationships between constructs fit with the evidence in each case.	Bourgeois and Eisenhardt (1988), Eisenhardt (1989) Miles and Huberman (1994)
Analytical induction	Pattern verification	Comparison of the emergent concepts, theory with the extant literature.	looking for similarities and differences	Alvesson and Sköldbberg (2000), Eisenhardt (1989), Manning (1982)

3.10.1 Data management

During the data collection process the researcher decided to store the mass of unwieldy tangled data of notes transcriptions and documents based on the previous described data collection phases per company. The data was labelled short after it was collected following broad themes as identified in the semi structured interview. Emerging themes were similarly recorded. These themes were kept as close as possible to the respondents own language and understanding. As the fieldwork progressed a list of themes and a concept that appeared to be important were listed in a case journal (Yin, 2003) which was used at a later stage to construct a more manageable index through clustering the data into various sub-categories and categories using the process of open coding (Strauss & Corbin, 1990). This index provided synthesised data that could be used for data display (Miles & Huberman, 1994).

3.10.2 Data Display

Following Pettigrew (1990) and Eisenhardt (1989), we broke down the data display into two overlapping phases. The early case write up started with a broad definition of the problem in the context of the organisation. This definition was further sharpened through analysis of relevant literature and discussions with practitioners and academics. Based on these developments we wrote the chronological case (Pettigrew, 1990). In the next phase we focussed on the strategic concerns and perspectives of the organisations involved in relation to the perceived and challenged impact of the Euro in T⁰ and T¹ in order to write the diagnostic case (Pettigrew, 1990). Writing the diagnostic, descriptive and issue organised case studies of each firm appeared a helpful tool to generate insights. The purpose of the data display as presented above was to provide a case study that featured ‘*analytic abstractions for purposes of presenting theory*’ (Strauss, 1987 p. 218). In other words, the narratives presented were structured similarly based on analytical dimensions of inquiry⁴³. Each dimension was aimed at further developing the understanding the key question: what is the perceived and challenged impact of the Euro. There were two main reasons to present abstractions rather than full ‘*stories*’. First it aimed to clarify sequences across context and levels analysis. Second it presented the linkages between the levels of analysis from a practical point of view. Thus, the narratives aimed to reproduce the perspectives of managers in relation to the unfolding impact of the Euro, whereby various levels of interpretation and reflection are given ample space in order to secure the importance of the reflection. In doing so we followed Pettigrew’s (1990) suggestion to move the writing ‘*beyond the analytical chronologies*’ (p. 280).

In addition, it should be noted that due to space constraints of PhD research, the researcher was forced to concentrate upon well chosen empirical material that represented the view of the manager and organisation in relation to the impact of the Euro. This implies that the rest of the empirical material is used for development of the researcher’s own understanding aiming to increase the quality of the interpretation of the focused material.

3.10.3 Data coding and pattern matching

In order to define relationships between the categories and subcategories within and across the cases we used causal network diagrams (Eden, 1988; 1992; Eden & Spender, 1998) and matrices as suggested by Miles and Huberman (1994). The first technique helped to ‘*gradually elaborate in the course of piecing together discrete bits of data*’ (Miles & Huberman 1994, p. 152). The

⁴³ These analytical dimensions are proposed in the theoretical framework as presented in table 3.1.

diagrams obtained graphical representation of individuals understanding of a particular issue or problem [*i.e. the impact of the Euro*]. This significantly helped to manage and structure the content of respondents thinking about the Euro-impact decision making process. While this technique can be applied in numerous ways (e.g. Eden, 1992; Fiol & Huff, 1992; Hodgkinson *et al.*, 2004), we applied the technique as explained in figure 3.10.

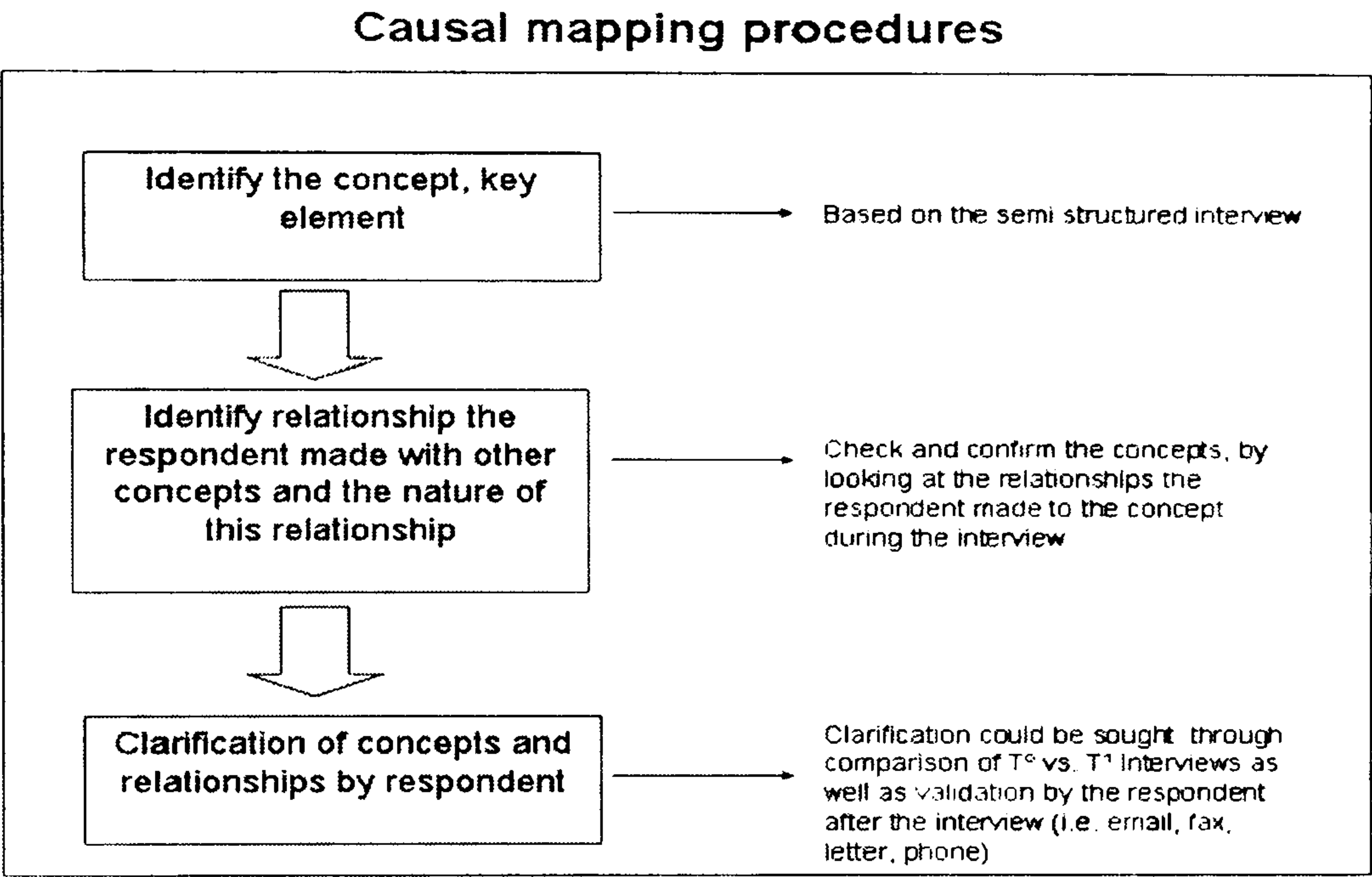


Figure 3.10: Causal mapping procedures

In a deductive⁴⁴ way we could go around individuals cognitive cause maps to discover recurrent phenomena in the stream of data and find out how the respondent made relationships between the cause and effect and visa versa. This indicated a set of procedures by which data was reassembled in new ways in order to make connections between the initial categories and sub categories found with open coding. Corbin and Strauss refer to this process as axial coding (1990). This iterative approach of comparing causal maps within the case generated a new set of patterns. These patterns could be used to make relationships within the case in terms of how they influence each other, appear together, or happen first.

In contrast to the previous approach that emphasised the integration of patterns, with the use of matrices we aimed to find a balance between the similarities and differences between the research sites, as well as to deepen our understanding and explanation (Glaser & Strauss, 1967). Using matrix displays allowed us to compare and contrast the concepts and patterns of behaviour generated from the within case analysis across the sites. We did so by comparing constructs,

categories, effects, relationships and so fort. For example, one of the matrix techniques adopted is referred to by Miles and Huberman as an ‘*effect matrix*’ (1994, p. 137). This type of matrix focuses on outcomes (effects) whereby the causes of this outcome are being compared and contrasted. We used a Likert type of scale from 1 to 5⁴⁵ to signify the firms’ position in relation to a particular construct (Likert, 1932). Table 3.9 provides an example of the effect matrix as used in this study.

Table 3-9: Matrix encoding example

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6	Case 7	Case 8
<i>European position</i>								
Product standardisation	5	4	4	3	2	1	2	3
Promotion standardisation	4	5	3	4	3	2	3	4
Network integration	4	3	4	3	3	3	2	3
:	:	:	:	:	:	:	:	:
:	:	:	:	:	:	:	:	:

3.10.4 Analytical induction and triangulation

In this study we used four levels of triangulation. Firstly, using multiple informants at different levels within the organisation provided us with different sources of information that could be juxtaposed and compared. The second level of triangulation is a direct result of the multiple data collection instruments that were applied. The third level is the case study design which allowed comparison and contrast of an opposite outcome across the cases. In the line with Eisenhardt (1989) and Pettigrew (1990) a similar set of case parameters were considered to offer promise of markedly contrasting case detail for this study. The fourth level, and arguably the most important level, is the cause and effect dimension that derived from the ability to move back and forth between two timeframes, formulating theory in the T⁰ setting and the immediately placing the embryonic ideas in context in T¹ for (dis)confirmation.

To further enhance this later argument, we adopted an approach that involves repeated going back and forth between data collection and existing theory as elaborated in section 3.4.4. This process can be termed analytical induction (Manning, 1982), that is, a process which requires that a theoretical explanation (revisiting the literature) of a phenomenon is constructed inductively from the first case or cases examined. The researcher then sought for negative cases to test and expand

⁴⁴ The researcher used orienting constructs from the literature in his semi structured interviews, which were compared and contrasted here.

upon this theoretical explanation: a deductive procedure. By a series of case studies and iterations of the theory, a theoretical explanation was eventually reached which accounts for all cases examined. The purpose of this comparison reflect the argument of Eisenhardt (1989) that *'the juxtaposition of conflicting results forces researchers into a more creative, framebreaking mode of thinking than they might otherwise be able to achieve'* (p. 544).

3.11 Conclusions

This chapter has elaborated upon fundamentals of the study by presenting the scope and context in which the research questions are being studied, as well as detailing how the research has been carried out. We divided the chapter in two parts. In the first part we detailed the scope and strategy of this research. We started this part with the methodological framework to provide a frame of reference in terms of constructs and scope of the research. The following discussion of the philosophical stance then further explained the interpretive underpinnings of this framework. It was particularly argued that actors' behaviour does not consist simply of fixed responses, but involves interplay between the outer context, the organisational context and the interpretation of the individual of both contexts that significantly influence the response constructed. Based on the influence of intra-organisational features on the organisational response to environmental changes, we stressed the importance of adapting broad statements of the contextualist approach as this approach draws the attention to antecedent conditions at multiple levels that shape the meaning and actions of individuals. We elaborated how this adaptation influenced the selection of research design as well as the methods employed. More specifically, we first explained the role of the outer context in this study.

Second, we discussed what levels of analysis were going to be analysed. Particular attention has been paid to the role of path of dependency in this study, and way in which we address the issue of time. After that we presented and explained the model of sensemaking, followed by the model of strategic action development. In the final two sections of the research strategy we detailed the techniques used to integrate the two levels of analysis which revealed how we researched the changing pattern of strategic outcome and how this study explored the unfolding contextual pattern of individual interpretations.

The second part of the chapter focussed on how the research has been carried out. The work of constructualists, namely Pettigrew (1985b; 1985a; 1987; 1990; 1992; 2001) and case study

⁴⁵ 1 is referring to the lowest score, 5 indicates the highest score.

theorists, in particular Eisenhardt (1989) and Yin (1994, 2003), greatly influenced the research design and objectives of this study. Following the aim to understand the managerial perception and strategic response to the impact of the Euro over time, the objective was to gather contextual data at multiple levels in a longitudinal study. Accordingly we justified the use of a dual phase realtime study that aimed to collect triangulated data at multiple case sites. While case selection was based upon theoretical sampling criteria, the selected sites also concurred with pragmatic considerations and negotiation of access. With the chosen instruments for data collection, the research design and data analysis we pursued with triangulation at four different levels in order to enhance the thoroughness, and validity, of information obtained. This strategy of triangulation sought stronger substantiation of theoretical constructs (Eisenhardt, 1989; Yin, 2003) and contributed to confidence in the study results.

The following chapter highlights the data collected from the research sites. Chapter five and six will present the analytical account of the presented research design.

Chapter Four A:

Case descriptions CE Industry

Case 1: Philips Consumer Electronics Europe

Organisational background

The foundations for what was to become one of world's biggest electronics were laid in Eindhoven, the Netherlands, 1891. The company initially concentrated on manufacturing incandescent lamps and other electrical products. Developments in new lighting technologies were the first signs of Philips as a manufacturer of product innovations, marking the beginning of the diversification of its product-line. Since then Philips made major contributions in the development of the recording, transmission and reproduction of television pictures, home audio, house hold products and many other consumer electronics. Today, Philips is one of the world's biggest electronics companies and Europe's largest, with sales of €32.3 billion in 2001. It is a global leader in colour television sets, lighting, electric shavers, medical diagnostic imaging and patient monitoring, and one-chip TV products. Its 184,000 employees in more than 60 countries are active in the areas of lighting, consumer electronics, domestic appliances, components, semiconductors, and medical systems.

European company structure and performance

Since its foundation the concentration of its main activities are grounded in Europe. Not only are most of the HQ of each Philips division based in the Netherlands, also most production and R&D is still completed in European countries.

'When taking a closer look at how Philips is operating as a company, one of the first things you will notice is that we have many European values. This is reflected in our product development, the market introduction of these products....it is not that you will notice this when you are European, but as soon as you go to our subsidiaries in Asia or the US then they will tell that we are definitely a European company....'

For a long time the European market has been the most important market in financial terms. Today this market still counts for more than 40 percent of the total turnover. About 60 percent of the Consumer Electronics sales are made in Germany, France and the UK alone. 30 percent of the remaining European turnover is realised in other EU countries. Overall, Philips has set up a European network with subsidiaries in every European country capable to deal with distribution, sales and marketing on a regional level. While production activities over the years moved from the Western producing countries towards the Eastern European countries, it is manifest that a significant proportion of products are still produced in Holland. Nevertheless;

'The importance of factories in Poland and Hungary for example, changed over the past few years, resulting in massive factories for export to the European Union. These decisions were made by the management in the eighties in order to stay competitive in the market. Producing in the so called 'low cost' countries influences different issues such as lower production costs and lower costs of manufacturing.'

Recent structure changes at Royal Philips

This program to consolidate manufacturing to reflect the changing industry needs totally changed Philips CE industrial strategy. From a highly localised strategy with more than 100 stand alone subsidiaries all over the world, Philips moved to a globalised structure with a total of 'only' 14 stand alone subsidiaries. Till the late eighties, Eindhoven (the Netherlands) was Philips home base for all the HQ of all the product divisions. Due to the world globalisation and the role Philips wants to play in this world, the business structure of Philips significantly changed in the nineties. From 1996-2000, the total number of divisions was reduced from 14 to 6 divisions. This is either done through reorganisation and combining divisions or selling divisions that were not related to the core business of Royal Philips electronics.

The CE division structure

The CE division is the largest division of Royal Philips Electronics, since the company restructuring programme in 2000. CE is nowadays a combination of home audio, video, car electronics, communications and household products. The restructuring had a significant impact on the structure of this division, especially for subsidiaries that act as stand alone profit companies, with many national employees. Marketing and strategy plans are now set up and controlled by the division HQ. The management of the company is entrusted to the Board of Management of the CE division, which is under supervision of the Supervisory Board of Royal Philips Electronics. Overall decisions need to be approved by the management committee, consisting members on the Board of Management, which are made up of particular Chairmen within each product division and other key officers. This Committee is the highest consultative

body within Philips. They are there to ensure that continuity exists across Philips business base while issues, practices and policies are implemented and shared

'In practice, it does not matter where the product division is based, because it is each subsidiary who is making their own decisions, controlled and influenced by the product division, who has set the overall goals and strategies.'

From this coordinated decentralised policy a move is being made towards more control from the HQ level. This starts with the close cooperation of country managers with European departments [*i.e. marketing*] and their specific managers [*i.e. brand managers*]. Besides more emphasis is being put on introducing measurable issues (targets/goals) within the marketing policy to allow the top management to develop a strategy (emphasising on process standardisation) which can be carried out by the subsidiaries and controlled by the EQ/HQ. Within this simplified organisation structure, the origin of the company still plays a dominant role. The main HQ and the HQ of the CE division moved from Eindhoven to Amsterdam. Moreover, the Netherlands still hosts 10,200 employees in CE alone (annual report, 2002) in more than 30 HQ, subsidiaries and factories.

Role in the industry and core business

Philips CE is one of the world's top three companies in this sector and sells electronic products to more than 60 million consumers all over the world. This makes Philips CE market leader in the overall TV sector and the digital recording sector. R&D is therefore very important for Philips CE in order to market new product inventions and protect these with patents. Within the total product line of Philips CE, the TV products are the most important in terms of turnover and market share. Not only is Philips one of worlds largest manufacturers of colour television and equivalents, they are also the leader in the technological development of wide-screen television and flat display TV's.

Current management approach in Europe

Philips aim is to have a global strategy which combines the technical core competences with the consumer understanding to deliver better experiences to their customers. This global approach is based on the brand philosophy and brand experience as expressed in the Philips brand promise:

'Enhancing the quality of daily life: Meaningful innovations, intuitive solutions, inspiring design...'

Philips is continuously trying to find ways to improve their global business. In doing so, global strategies are based on three profit drivers; customer competence, operational excellence, and product leadership.

'In a very complex environment we aim to improve our profitability, this has been our aim the past few years and we have been very successful so far. CE is one third of the total turnover and only eight percent of our invested capital...What you see in this industry is that everybody is experiencing the same problems, which almost forces each player to focus on operational excellence in order not to remain profitable. As a result the inventions made in the industry are on a comparable level, and there are relatively few unique selling points in the business...'

In practice, the successful execution of the global strategy at a local level often depends on whether the subsidiary meets the monthly sales figures as set by the HQ. If not, then the focus will be first on meeting these figures whereby global set marketing issues such as pricing are being ignored, limiting the consistency of this strategy.

'I think that we are sales representative driven...not market or marketing driven but sales driven. For Philips CE and all its product divisions it is important that they meet the budget demands at the end of each month. This is our driver, so what you see is a local implementation of a global strategy which shows too much variation.....'

Current marketing approach in Europe

Product positioning

Global Consumer & Market Intelligence (GCMI) has first set an internal picture to:

'...communicate in exactly the same way, so that if three business managers are together and they are talking about lifestyle or how people make choices about what money to spend and where, then there must be a common terminology and understanding.'

Philips aims to do so by using a segmentation strategy⁴⁶ based on perception (selectives, innovators, classics, basics and plugged ins).

'By looking at values and consumer perceptions, we aim to segment the world market into global segments....it helps to understand where the commonalties are on human basis in order to segment efficiently.'

Marketing mix standardisation

The global aim is develop a consistent brand that is similar in all countries, both in terms of appearance as well as image. This global approach has led to some significant product portfolio changes in recent years. It was only ten years ago Philips was selling products under fourteen different brand names including Grundig, Bang & Olufson, and Aristona. Today all products are sold under the Philips brand name. While this introduces a level of consistency, management is facing additional problems in relation to coherency. To tackle these problems, the objective is to minimise country any potential differences that might be there. From a practical point of view this

⁴⁶ Instead of focussing on consumer differences in terms of culture, habits, income etc., Philips segmentation focuses on consumer experiences and knowledge. Experiences are being sought in the relationship between brand, features, attributes and benefits (functional and emotional). Based on this consumer experience the brand-name Philips is viewed in different ways. These experiences are combined with the reason why, how and where the product is going to be used, in other words, what need the product is fulfilling.

is most clearly evident at a marketing level. Globalisation from this point of view is associated with standardisation of marketing mix elements. Philips succeeds to standardise most products to the highest degree, however, in exceptional cases products need to be adjusted to country specific codes. The same applies to promotion however;

'...information is still translated. Also small local differences exist because not all promotion procedures are standardised and local personal give their own interpretation to certain rules; However, as a premium brand, we expect to earn a bit more than most competitive products by doing a better job of exceeding consumer needs and delighting them with exciting designs'.

Even though Philips sells her products under the same name, management does make a quality and R&D distinction within their portfolio.

'This means that the Philips brand is found at many types of retailers, but not all products are marketed through all retailers. Placement represents a leading indicator of the success of our go-to-market strategy'.

Products with an added value and a clear competitive advantage are sold by different distribution channels than products which do not have any extra value. In practice this often implies that more advanced product types are sold via specialists, while other products are sold via large retailers or hypermarkets. The extent to which this is happening depends on the possibilities within each country causing a difference of programme standardisation.

'...while European distribution is focussing on the national level, it should be pointed out that more European retailers selling formula, franchising, spread throughout European countries including, Germany, France, UK, Belgium, Netherlands, Spain appear and therefore distribution programme standardisation possibilities are growing.... We aim to level the European prices to the highest extent. In doing so we follow our main competitors (Sony, Samsung) who most often are capable to sell at a higher price in some countries than we can. By systematically raising the prices for these products, we hope that our prices are levelled with only the unavoidable differences (i.e. VAT) in the near future.'

Expected impact of the Euro

From the start, Philips approached the Euro as a business opportunity. Although, Philips was aware that pitfalls in relation to some business elements needed to be overcome, the concentration of response was on a strategic level since the mid nineties. From the overall business point of view the Euro was interpreted as *'the pioneer of harmonisation'* and *'the tangible converter of globalisation'*. Indeed, most of Philips' business managers saw great opportunities and were keen on the early start as they related an early implementation with a first mover advantage. In other words, the time aspect related to the Euro therefore played an important role. First mover advantage could solve problems such as adaptation time of the Euro, scarcity of IT specialists, and costs of the changeover process. One of the Euro project group team members described his expectation as follows:

'Once the Euro is in place, the resulting price transparency will dramatically change the way companies do business, especially in the retail sector. Right now, the different currencies make it hard to compare prices - and there is the cost of currency conversions to consider too. But in the future, a consumer will be able to compare Euro prices across Europe - and make his purchases accordingly. It all means that the consequences of the Euro have to be carefully worked out and prepared for - latecomers could miss the boat.'

This impact expectation of this member reflects overall expectations of the firm, which could be grouped into two strategic elements; the impact on the business environment and the impact on pricing strategy in particular. Both elements were driven by the expected impact of price-transparency in particular.

Foreseen Impact on business environment

'the Euro will eliminate foreign exchange risks within the Euro-zone and therefore reduces costs of cross-border transactions. This will improve the openness of the European Single Market as a whole, because the Euro will bring price-transparency throughout the European Union....the Euro will allow companies in different countries to 'speak' the same financial language and will therefore facilitate trade between the Member States participating in Economic and Monetary Union.'

These assumptions had shaped the approach taken to the Euro preparing for its potential impact within any division including exports, imports, direct investments and alliances. Most importantly was the assumption that the Euro would serve as a catalyst for companies already active in the European market, resulting in an acceleration of trends towards market globalisation. Moreover, there were a number of other things that underpinned Philips' determination to be an early adopter of the Euro. The strong belief in the long-term benefits of EMU was one of them. This had everything to do with a concern about Europe's long-term competitiveness without the Euro. Philips firmly believed that the tight monetary policy required by the Euro would create a better investment climate in Europe, resulting in growth and jobs (Source: Mondial February 1998).

Foreseen Impact on pricing

From a strategic marketing point of view, response expectations concentrated on practical consequences of conversion from a national currency to the Euro.

'Selling a product for NLG 2.99 or for 1.35 Euros makes quite a difference from a psychological point of view. Leading on from this, what if the conversion gave a price that was in between two price points? Rounding up to 1.36 Euros or down to 1.35 Euros could produce substantially different results when multiplied over millions of sales.'

A comparison of a net-selling price of the same Philips TV in 7 countries in the Euro-zone illustrates this argument:

Table 4-1: A price comparison of Philips televisions in 7 European countries

	Local Currency	Euro	Euro Going- Price- point	Delta In Euro	Delta In %
Germany	999.-	512.31	499.99	-12.32	-2.4%
France	3,490	533.64	499.99	-33.65	-6.3%
Spain	84,990	512.61	499.99	-12.62	-2.5%
The Netherlands	1,099	499.55	499.99	+0.44	+0.1%
Italy	96,900	502.23	499.99	-2.24	-0.5%
Belgium	19,900	495.15	499.99	+4.84	+1.0%
Austria	6,990	509.85	499.99	-9.86	-1.9%

Source: Philips Corporate Treasury 2001

Strategic Intention

‘the Euro will raise the question to explain and justify price differences within the Euro-zone. ...the differences in value added taxes across Europe. Even if a product had a pan-European price, it would still be cheaper in Germany or Spain, for instance, once V.A.T. is added. This is not a uniquely European problem, there are also differences in state taxes in the U.S. But there, products can be sold before tax, which is not allowed in Europe.’

To overcome these problems, a European Single Currency Platform Group (ESCP) was established in 1995, attended by a selected number of business representatives. In 1996 a national sub-working groups were set up in every EMU member country, with a separate group for Finance and Accounting in order to deal with the first technical problems. In 1997 the ESCP was transformed into a large Steering Committee with about 30 senior managers, empowered to take corporate decisions. Finally, one project director was appointed, and sub-working groups were established in the product divisions. In total more than 200 people were involved with the implementation process of the Euro.

Implementation of the Euro

In general the technical issues related to the changeover process focused on the implementation in software related issues.

‘Although it sounds relatively easy to add an additional currency to the software programme, in practice it is labour intensive to go through an enormous software system line by line. Especially when taking into account that all participating countries (currencies) were known by summer 1998, which left a small window to start all the adaptations.’

Regarding the administration, January 1999 was the date to changeover the inter-company transactions into Euro’s. To realise this, not only software systems in the EMU countries needed to be changed, any other transaction, including salary specifications were fully Euro prepared for January 1999. Invoicing problems were more complicated at first sight. Rounding differences from the national currency towards the Euro and back were causing problems in the infrastructure

of the invoicing system. This asked for a more flexible system to either produce a Euro invoice or one in the national currency with the total amount converted into Euro's.

Strategic Evaluation

The main strategic aim of Philips was to position each product similarly in the European market.⁴⁷ The marketing strategy is not yet an extension of this business strategy. The main reason for this is that in many product groups Philips has not yet found the ideal connection with the consumer experiences. So far, all tools were implemented to developed products focussed more on consumer orientation.

'It is important for us that we are sticking to our objective: to achieve growth through technology. The adverse market conditions should make us more determined to do what's necessary to develop a successful technology business....today's high tech markets are no longer characterized by high growth. When we set this objective, we'd seen years of booming technology markets and, like many other companies, our expectations led us to make high growth our ambition. Now realism has to reign. As long as high growth is out of our immediate reach, we need to be a consistently high performing company. That's the basis for profitable, sustainable growth. The priority is to have good, solid and consistent execution in the way we run our businesses...it is our vision that this objective can be accomplished by combining consumer need with technological development.'

Strategic (re) positioning

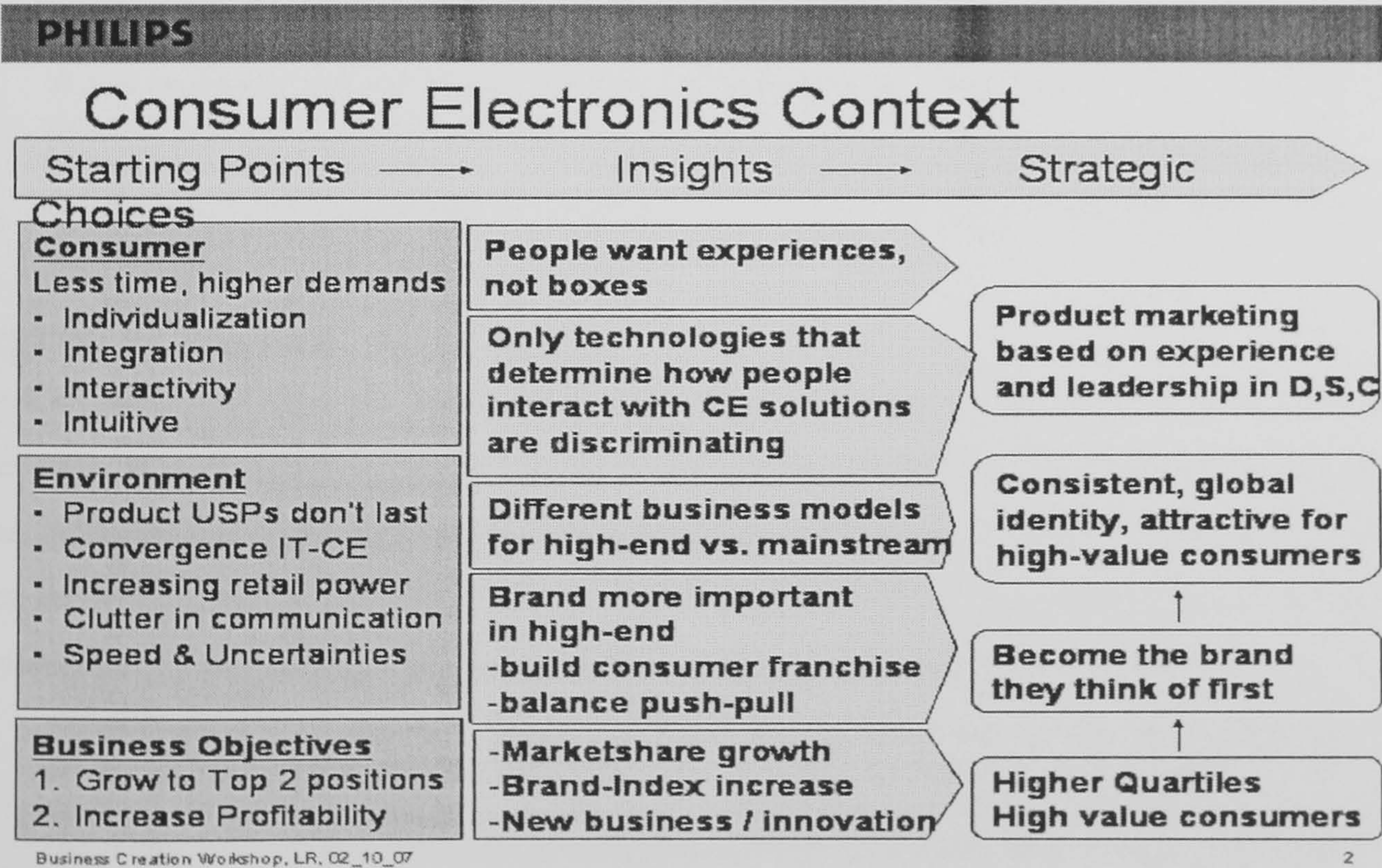


Figure 4.1: Philips' experience approach

⁴⁷ based on the customer intimacy/product leadership strategy as elaborated previously

The so called ‘*experience strategic approach*’ aims to result in improving the current strategic positioning of the Philips brand and product with a more focussed product range. Therefore, the product range is aligned to the central themes of ‘home entertainment’, ‘Personal expression’, and ‘Productivity Solutions’. Product standardisation and similar product ranges have the objective of levelling the image perception of the global brand throughout Europe. In order to realise this, Philips aims to standardise the marketing processes to a higher level. The operational processes have already been standardised for a considerable time, however, strategic processes are not. The main reason of not yet doing so is due to the large size of the organisation which demands the use of many official procedures to maintain consistency.

‘We are proud of the close cooperation that now exists between Philips Electronics globally and Philips Consumer Electronics here in European countries. It is this cooperation that has enabled us to take a leadership position in many areas here in Europe. And we are working hard to take it to the next level.....Aim is to standardise the processes in such a way that the marketing approach throughout Europe is identical’

Monitoring the Internal Environment

The Euro has also since its introduction been used as an internal benchmarking tool, as it allows subsidiaries to compare strategies to a higher extent which contributes to the learning process why one subsidiary is more successful than the other ‘*as market circumstances are easier to being put in perspective.*’

‘It also enables us to learn more about competitive behaviour....In a relatively short period of time, we have accomplished quite a bit. And while I am very optimistic about Philips her future in Consumer Electronics, I recognize there are serious economic, product lifecycle, distribution, marketing and cost pressures facing our industry today. So, we have much more work to do.’

Degree of success of strategy

Based on the three strategic profit drivers; customer intimacy, product leader and operational excellence, it is evident that many players in this market including Philips concentrated on the latter. According to TMT managers, the main reason to do so is the result of the lack of focus given on product innovation. Given this situation, present Philips CE strategy will focus more on the consumer by producing products that fulfil the needs of the European consumer.

‘When you put it all together, Philips is gaining momentum. Our industry and community efforts, as well as our products, embody our keen understanding of both technology and consumer insights...the single most important task for everyone in Philips is solid execution. The future will see us continuing to work determinedly at transforming Philips into a high performing company geared towards growth. So everyone should be focused on the common goals. I am optimistic. When talking to people across Philips – from the people I meet at town meetings right through to the Supervisory Board – I see that our employees recognize the need for change and want to fully embrace and contribute to our vision – and that’s what we need most of all.’

Changes in European market view

Philips stresses that numerous external factors have ‘*a significant impact on the strategic process*’. The Euro is interpreted as one of those factors, that reinforces the European picture.

‘At least as important as the Euro is the fact that retail channels are becoming clearer in recent years. Some years ago hypermarkets were aiming to cover the complete product portfolio CE manufacturers were producing. Nowadays they cleared their policy and only offer the products they think are essential given their strategy. This has been a European trend which makes the market clear and opens similar distribution possibilities in every Euro country.’

Strategic Reformulation

To deal with these perceived market changes the company has chosen to amplify the fact that Europe is seen as one market. In doing so, Philips has made significant changes in their European strategy. In practice, this implies that subsidiaries in Europe are following additional [more strict] guidelines which are developed in great detail by the responsible European managers. Although on the one hand this advocates centralisation of decision making it is being stressed that in practice the strategy is more flexible than suggested above. The following statement confirms this flexibility:

‘Our strategy is like a strong elastic band. You can not jump out, however, if the circumstances demand a market response, it is been made possible to do so. We have done something wrong if a strategy is that frigid that you can not even do any promotional activities by yourself [referring to subsidiaries].’

Planned articulation of strategic changes

The role of the Euro in this context is that it has been used by Philips to harmonise the product portfolio on a European level, and to harmonise the accompanied marketing mix elements in a similar way across Europe. For example, in the year 2000 Philips had 48 different types of irons in the European market. With the introduction of the Euro Philips reduced the differentiation to 22 models to lower the costs, and enlarging the differentiation between the existing products, based on the expectation that the Euro would force Philips on the longer term to harmonise the prices. Similar strategies are used to change the product portfolio in Europe.

‘...we have increased placements our premium product categories. We have dramatically increased placements in our high-end, digital direct-view and projection televisions, as well as in our Flat TV line that includes both plasma and LCD screens. As a result, we have increased our key brand and product exposure to upscale consumers. This gives us a strong foundation to build upon in this coming year.’

The European developments in combination with the industry changes strongly influenced Philips to act more globally. Current product strategies that are aligned to the local market are going to be replaced by global strategies in the near future. Steps already undertaken in this direction include a lower degree of product customisation, a more centralised control of decision making, and

focussing on consumer experiences in the generic segmentation schema to overcome country differences. While lately the attention focused on cost advantages and coordination of activities, the current steps are more related to customer orientation and satisfying their needs based on innovation and faster global R&D.

'Last year, the theme at the Philips Leadership Group meeting was 'Focusing on the Fundamentals'. This has been developed into a number of building blocks that are essential for the successful transformation of our company. These are: a strong balance sheet, a more effective organization, ongoing portfolio management, product and technology momentum, and customer intimacy. Now, though from our point of view, we made good progress in transforming ourselves into a company that is establishing a platform for profitable growth, we definitely need to strengthen and accelerate the process in the future. Our top priority is to get our execution right and improve our performance throughout the entire company.'

Case 2: Sharp Consumer Electronics Benelux B.V.

Organisational background

Sharp is an integrated electronics company with business ranging from consumer appliances and electronics, to information systems and electronic components. Founded in Japan in 1912 by Tokuji Hayakawa, Sharp is nowadays one of the largest Japanese Electronic producers with a total turnover of \$16.4 billion in 2002 (Annual report 2002). The largest source of turnover has been the CE division of the company with an estimated turnover of 65% of the total (TV, Audio systems and home appliances).

European company structure

Sharp has set up an effective network in Western Europe. With subsidiaries in Austria, Benelux, France, Germany, Italy, Spain, Sweden, Switzerland and the United Kingdom, Sharp is capable to control the strategy on a regional level. In addition, there is a EHQ in Germany that supports the subsidiaries and acts as the main communication source between Europe and Japan. Sharp has got manufacturing bases in France, Germany, Spain and the United Kingdom. Most of the fundamental technological inventions are done in R&D bases in the United Kingdom. Every subsidiary operating in the European market can be seen as a stand-alone profit organisation, with as many national employees as possible, to maximise the local market knowledge. In general a European strategy is set up by EHQ, who determine overall goals. With these goals set there are negotiations between the subsidiaries and the EHQ how to achieve these goals. The Japanese HQ is agreed to have a more advising role how to approach the European market, however, developments show that the importance of EHQ and HQ relationship is growing in order to achieve some recent proposed centralisation issues. Despite the availability of production facilities in Europe it is manifest that the majority of products are being produced in facilities in Japan. This is the result of the availability of more advanced factories in the country of origin.

'It is for Sharp a priority to make sure that these factories run at their full capacity in order to fully benefit from economies of scale.'

Role in the industry and core business

Sharp produces products that fit in the home audio and video segment as well as being a producer of household products. Its distinctive role in this industry, is the result of its advanced innovations in the Flat panel displays and Liquid Crystal Display (LCD) technology, which makes them worldwide leader in this segment.

'This leadership stems from a corporate decision in the early fifties to pursue semiconductor technology as response to corporate concerns that Sharp, as primarily an assembly firm,

would become progressively non-competitive, especially with the advent of digital technology’.

With more than 35 years of ‘digital’ experience, LCD has become the most important invention for Sharp. With the upcoming use of the LCD technology in many CE segments such as television, communication and monitors, Sharp is improving this technology and applying it to alternative product groups such as the computer group and the mobile entertainment group. In order to do so, a LCD System Device Development Centre has been established in January 1999. The overall improvement of products and new applied inventions in the LCD sector, are the main goals to develop Sharps’ core business in the future.

‘Main reason for Sharp to focus on high technology products is because they can be used to improve the overall picture and image of the company.’

It is only recently that product developments shift away from its traditional product portfolio in Europe. Consequently, from a financial perspective, the traditional products are still responsible for the majority of Sharp’s turnover in Europe. More than 60% of the sales in Europe is realised by selling microwaves, small (bedroom) televisions and TV-VCR combinations.

‘Sharp is producing and inventing the most diverse high-tech products. All these new products are sold on the Japanese Market, positively influencing the image of Sharp. Sharp Japan made the choice in the past not to offer these products in most of the European markets....What you see now are image differences in Europe. I think that this gap will close when European subsidiaries succeed to align their strategy to the global one.’

Management approach in Europe before the Euro

Sharp Electronics, is aiming to become a ‘one-of-a-kind’ company. This is clearly reflected in the company’s business philosophy, stating that:

‘We do not seek merely to expand our business volume. Rather we are dedicated to the use of our unique, innovative technology to contribute to the culture benefits, and welfare of people throughout the world.’

Nevertheless, Sharps’ strategy in Europe was characterised by its high degree of autonomy and its importance of flexibility in order to align this strategy to local market circumstances. Therefore it was understandable that each individual country fulfilled a different role often based on its local market opportunities. Despite, there were some factors that point out the European vision of Sharp before the introduction of the Euro. Most important is according to the respondents the fact that Sharp often used the European Market as a test market for their new products.

‘The fact that EHQ is in Germany plays an important role for the available product line in Germany. Sharp is capable to compete on a much broader level in this market because of a high variety which is the result of product line expansion in this particular market. For this reason, in terms of turnover, is Germany the most important market in Europe.’

Within this context, there were limits and differences in available product ranges for the subsidiaries. It depended on the product transparency of the market. In other words, how difficult was it to compare products, and how rapidly was the technological development in terms of product applications going in this market. This was one of the reasons of different local market approaches.

'The Netherlands is one of the most important test markets for any Japanese Consumer Electronics producers, because of its size, its population and its degree of competition, which is the highest in Europe.'

Marketing approach in Europe before the Euro

Product positioning

'About four years ago, we changed the Mini Disc market by introducing a portable MD-player. By means of advertisements we communicated this to people of 25 years and younger. Nowadays, this segment is willing to pay much more for a Sharp product. For this group we clearly realised image trading up.'

The planned world image upgrading of Sharp was already showing signs of effect in the European market. The following two arguments further illustrate the proposed change of strategy that Sharp was undergoing in the Benelux at that stage.

'Only five years ago we were still selling 80% of our products by means of the cash and carry retailers. Our products were sold way below the average market price, only to sell more volume. This price image is still our main problem. It is only the past two years that both retailers and consumers are starting to believe in our product quality.'

'...for the future this means building up new relationships with retailers who are more suitable for their new brand image with a special focus on the new inventions, in particular LCD, in order to improve this image. This might lead to losing customers and market share in the low-profile products, however, it brings Europe closer to the business philosophy of Sharp, which should improve the overall profitability'

Product and promotion standardisation

'Unfortunately, there is sometimes a huge difference in quality among the products within a specific product-group. Most of them are not causing any problem,, however, there are a couple of product-line's that have a much higher percentage of dropouts than average in the market.'

These dropouts reflected in the sales potential of the total product-line of Sharp in Europe. Retailers became doubtful about the quality, and customers were difficult to convince to buy a Sharp product. For management this has been a major issue of concern. The problem was at least twofold. Firstly, having technical problems lowered the potential benefit of economies of scale resulting product standardisation. Secondly, problems with standardisation had a negative impact on the future plans of Sharp.

'Despite we are not having these problems with more expensive products such as LCD, it will still be more complicated to convince the market channels that our products are of superior technical quality. This means that producing a distinguishing product does not necessarily give you the competitive advantage one might expect....'

For some products like LCD, mass production was not yet possible because of its complex technology. Sharp only had one factory at the time that was able to deal with the production of LCD technology at a larger scale. Moreover, there were European technological requirements that lowered the degree of standardisation which often led to quality differences and differences in costs of production. This also affected the consistency of the brand as Sharp CE Europe was only producing under the world-wide global brand name Sharp.

‘Having a global brand name has got advantages and disadvantages. Sharp is experiencing the advantages of economies of scale and global branding, however, at the moment Sharp is also having problems with the European Image and production quality differences...’

Price standardisation

The earlier mentioned local approach by subsidiaries most clearly reflected in issues such as pricing strategy. Despite that the minimum going price was set by the EHQ, the final price was the result of negotiations between the subsidiary and the retailer or buying centres. This open policy used by Sharp to calculate prices for new products, obviously resulted in significant price differences across the European countries, which is illustrated in the following example;

‘We know that there is a margin difference of more than 15% between our LCD television and the same television sold in Spain. It is nowadays not too complicated to buy these types of products via the Internet, so from our perspective it is important to get this on the same, European, level.’

Opportunities to Europeanise approach

Europeanising the strategy in Europe has long been a challenge for the company. It has been acknowledged from different perspectives that Europeanising was ‘not an option but a must. Several examples illustrated this argument;

‘Sharp is experiencing strong market changes that influenced their European market positioning. Market globalisation is clearly evident with issues such as the upcoming global retailers and European buying centres which confirm the direct impact of globalisation in the Consumer Electronics market. These developments ask for closer co-operation among the Sharp subsidiaries in Europe, to supply the different European regions.’

And there was a;

‘pressure towards more European thinking and acting and I clearly see difficulties to fulfil all the needs of these pan-European retailers based on our differences of approach in Europe.’

Expected impact of the Euro

Foreseen changes in market environment

‘What happens if the competition is getting stronger, than the price is becoming more important. This is not the same for every European market based on the consumer needs and the local competition.’

Sharp is expecting several market changes as a consequence of the introduction of the Euro on a Consumer level. Price transparency is an important issue, especially for standardised products. Since January 1999 this has been the focus of Sharp EHQ, based on the expectation that prices are easier to compare. Therefore, the going prices that are proposed on a European level for new products become more important. The overall aim is to close the gap in the bandwidth to a maximum of 7 percent.

'The fact that Sharp has set a bandwidth of 7 percent is based on two different phenomena. First, the laws are not yet harmonised on a European level, which is causing price differences. In addition, national governments still control going price elements such as VAT and import duties. Second, the market oriented pricing behaviour Sharp has been following over the years is based on the different market positions Sharp is having for their standardised products within Europe.'

Strategic Intention

Sharp takes an abstaining position related to the Euro. Expectations about the Euro in general are low, and assumptions related to the effect of the Euro in terms of marketing possibilities are nearly there. This position is reflected in their Euro strategy.

'On a short term, we do not expect that the Euro will have the same strong position as the Deutsche Mark or the Dutch guilder. For this reason we will wait and see.'

For this reason the Euro has become leading currency from April 2001, for products which are introduced after this date. In addition, other products (introduced before April 2001) will not undergo any unnecessary price changes, unless the market is changing rapidly. Taking this into account, Sharp will not respond on the Single Currency unless the market is doing so.

'The Euro is only important as soon as it becomes a stronger currency than it is at the moment. However, we do not foresee that to happen before it is introduced on the consumer level....'

Implementation of the Euro

The Head Quarters in Japan have set up the technical preparations for the turnover to the Euro in April 2000. Subsidiaries in Europe were instructed how this changeover will effect the financial system. Each individual subsidiary needed to prepare their financial administration for the Euro, so the changeover process could go as smooth as possible. Meeting the deadline to make these adjustments was particularly important as Sharp uses an intranet computer system that forces them to make changes at the same time in order to affect the subsidiaries once. A considerable delay was caused as some subsidiaries experienced problems in their calculations, which influenced the whole process. Finally the turnover to the Euro as the internal reporting unit was realised in April 2001.

Strategic Evaluation

Although finding the correct strategy has been of concern over the past few years, recently the changing European market environment has made the notion of the European market more compulsory.

Being a ‘one of a kind’ producer is something which is becoming even more important since the introduction of the Euro.

From this perspective, it is essential for Sharp that they can follow the latest technology, develop a competitive advantage and become an important player in these segments on a European level.

‘The impact of Europeanisation is more significant than we anticipated in advance. We believe that the Euro boosted its significance enormously, which makes it extremely important to respond now.’

Another key element evident since the introduction of the Euro is the European thinking process of other members of the market channel. This difference in development is becoming a more important issue, given the presence European retailers who aim to fully benefit from the European developments, by comparing marketing (often price) related issues across the European countries. Besides, a difference in positioning is according to Sharp Benelux inevitably leading to different perceptions that have a significant impact on the negotiating position of Sharp when discussing European issues with those retailers.

‘The Euro has a significant role in bringing Europe closer together. In particular the transparency forces us to think more European than we used to do. What we experience, as far as we are not acting European, our customers are.’

In addition, the changing retailers’ structure is also an important trend that is having an impact on product standardisation. The power of this type of pan European distributors, and the number of products they order is in such a large quantity that standardisation of marketing mix elements is becoming even more desirable.

‘First it is important that we standardise our products on a product level. Only for new technologies such as LCD Television we can make a fresh start. That is why we will start a European campaign to promote this standardised product.’

Strategic (re) positioning

In terms of promotion and product standardisation Europe is on a comparable level. The opposite is true for distribution, and consequently pricing. The complexity of changing image by upgrading the product line is clearly difficult from a distribution perspective. The problem is twofold; on the one hand there are enormous distribution channel differences in Europe both in quality as well as in quantity that reduce the possibilities consistent with Sharps’ positioning. While on the other, some subsidiaries are not willing (or capable) to distance from the ‘traditional’ approach by

focussing on the new types of retailers to sell the Sharp products in a specific country. Instead these countries try to sell the upgraded products via the existing channels, which is often contradicting the European product positioning.

'In the Netherlands we sold the first LCD televisions at a high price to the retailers to open some possibilities for the future. In France they sold the same television for 20% less during its introduction. This does not only lead to parallel import but it is also makes your product positioning implausible to the consumer on a European level.... We have the possibility in the Netherlands to follow the European positioning. The opposite is true in for example Belgium or France. 80% of our turnover depends on hypermarkets in those countries. We only convinced some retailers to adopt the new product line. Still we need to sell our new products in these countries as well. It therefore seems unavoidable to sell some products via hypermarkets. In principle it is no problem as long as this is happening in a dosed way. This is where we need to improve in order to avoid image inconsistency and price disturbances.'

Degree of success of strategy

The Euro has played an important role in the present market context. Although the Euro itself is not directly interpreted as a driver toward strategic change, its transparency indirectly influenced actions of their European customers which asked for European response.

'The European game has just started. We expect that the influence the Euro (and transparency) will be much bigger than we experienced so far....all the technical issues are solved, and we already see that European market is arising....there are suddenly more European customers, or local customers that look across the border...you talk and think in Euro's, so does your customer. The Euro is stimulating European business, and for sure it will lead to serious market changes. I hope we are too late to respond on these changes.....'

Changes in European market view

Market changes have a clear impact on Sharps' European viewpoints. Suddenly there is more pressure to think and act European. In order to respond to this development the Japanese HQ stresses that the strategy of the region Europe need to be more in the line of the global strategy (and products) of Sharp. Several steps are therefore undertaken, and others take more time. In particular, limiting the strategic flexibility of subsidiaries and introducing a more European strategy asks for a strong integrated European network that is much less autonomic and more centralised with clear guidelines that should be implemented in each country.

'In the past we aimed to have a strategy that would be as flexible as possible. From a very autonomic background we were enabled to take quick marketing decisions. This is sometimes indeed useful, however, we experience that a particular local approach is withholding us for growing at the same speed as the market developments. On a long term, this will harm our overall competitive position, what we obviously aim to avoid.'

Strategic Reformulation

In order to close the existing gap between the European subsidiaries identities, Sharp needs to find a way to upgrade their product image from a European perspective. There are some regions in Europe which have been approached in a similar way [i.e. UK, Italy and the Netherlands] while

more obvious regions such as Scandinavia and the Benelux are treated in total different ways. According to the general manager of Sharp Benelux, this problem is mainly due to the fact that a local approach [*i.e. cultural aspects*] should be neglected by local manages before the next step can be taken on a European level.

'Sharp is a global company that aims to apply a global strategy. I see that particularly Japanese multinationals in this industry have difficulties in doing so in the European market. One of the reasons is that Japanese HQ aim to control the situation continuously, while the European market request different adjustment that can only be made by the subsidiaries acting in this market....The situation itself is not that bad, however it becomes worse as soon as our European customers are developing quicker than us.....'

Some issues in relation to the European market perspective are more emphasised than others. Most significant perceived issue causing pressure towards European acting are the upcoming European retailers and European buying centres. It is interpreted that they have negotiation power based on their size which is influencing the going prices and trade-margins. The importance of these distribution channels is growing rapidly in Europe. More than 80% of the Sharp products are sold via these channels, which clarifies their importance. Taking this into account, Sharp is moving towards a more pan-European approach, forced by these market conditions.

'....it is often the combination of Market share and image that determines how important the product is for a retailer. For this reason he cannot do without the top brands within this specific range, even though the other brands might be more interesting in terms of margin.'

Impact on network integration

At the moment, a major problem to approach Europe as one market is the degree of integration among the European subsidiaries. As a consequence European subsidiaries are working as stand-alone operations working on a country or small regional level rather than as a European group. However;

'this is more the result of the complexity of the European market rather than miscommunication or unwillingness among the subsidiaries. Only when we find a strategy to approach Europe as one market we can apply it.'

The low integration of European subsidiaries is causing 'unnecessary delays to respond to the Europeanisation'. For example, the subsidiary in the Netherlands has been actively working on improving the product image by systematically declining the market share of commodities, and setting up new relationships to sell their products via new distribution channels. The subsidiary in Germany, on the other hand, is still focussing on the commodities and *'it looks like they do not have the creativity (personnel) to act in a different way in the market. For this reason Germany is still at the beginning of the process, while the Netherlands is much further...'*

Planned articulation of strategic changes

A clear move towards a more European approach it is the move towards more centralisation of decision making issues in Europe. By doing so, the focus will be on the EHQ, whose aim is to find the ideal market approach based on models used by successful subsidiaries (UK, Benelux and Italy). Other European countries will be guided to apply this model. The EHQ is following guidelines from the Japanese HQ, and more emphasis is given to a closer cooperation between both, whereby the EHQ will communicate this to subsidiaries and the HQ will also directly control the followed procedures of European subsidiaries.

'The market positioning in two of the three most important counties (Germany and France) is still reflecting our old image. This is causing serious problems when you are thinking about a European marketing approach.'

What you see is that adjustments are made for the high tech products and not for the commodities. For commodities counts that subsidiaries are fighting their own battle on a local level, with a focus on the marketing mix element price, which according to Sharps philosophy for this product group the only way to distinguish your product from that of the competitor. As for high tech products the policy is already more European.

'With our new product line we suddenly have products that are capable of changing our brand image. In some cases we even have 50% market share for a particular product worldwide, which is explaining its importance to the company. Therefore is extremely important from a strategic perspective that these products are positioned in the same way. Hence, one European policy is an absolute must for these products. For that reason, control and strict policies from a HQ and EHQ level helps to avoid that local decisions on a strategic level can not be made.....'

The policy is reflected in the contents of the marketing mix. *'Our present marketing focus is on image improving products such as LCD televisions.'* The respondent in this case is referring to the promotion and communication of the new range of Sharp products. This focus on high tech products leads to a new and different communication of the Sharp product line.

Moment to respond to market changes

Management has clearly chosen to move in a certain direction, however, before the new strategy will fully take effect, a transition period is unavoidable. What is important in this context is the fact that the process will take longer for countries where the commodities [*i.e. video, portable televisions, microwave etc*] are still the main source of turnover.

Case 3 Pioneer Consumer Electronics Benelux B.V.

Organisational background

Pioneer Electronics is one of worlds' leading companies in the Consumer Electronic entertainment sector. Its business ranges from car electronics to audio products and video equipment. Since 1938, Pioneer is aiming to have leadership that keeps them on the forefront of breaking developments. And with success, ground breaking developments have led to a turnover of \$5,478,380,000 in 2002 (annual report 2002). The largest product revenue has been the Car entertainment sector. The key of its success is based on the firm's commitment to satisfy highly demanding local consumers by constantly developing new top quality products. Therefore particular focus has always been on improving the R&D facilities that are set up in the three major regions – North America, Europe and Asia, in order to accommodate specific consumer's needs. Recently, Pioneer has even put more emphasis on this philosophy, which has led to a transformation of the corporate identity with new goals and objectives and positioning strategies.

'For Pioneer doing business is developing a competitive advantage, without an advantage there is not that much business to do. We always focus on the local consumer, and try to develop products that develop their wishes and demands Our aim is to distinguish ourselves in any market we do business in. In our opinion we can base this distinction on superior product quality and design .We want to make sure that consumers see us as different which is reflected in our new strategy how to approach the market.'

European company structure

Initially, Pioneer products were distributed and sold by the means of independent agencies in Europe in the late sixties. In 1970 the foundations of what was going to become the European network were laid in Belgium. Nowadays, the European Pioneer network has grown to a stabile production, distribution and strategic group, capable of approaching the consumers on a local level. Pioneer has subsidiaries not only in the EU and Northern European countries but also in all southern European countries and 'leading' Eastern European countries such as Bulgaria, Hungary, Russia and Slovenia. What is significant in this context is that Pioneer is one of the few Japanese manufacturers that produce most important products for the European market in Europe itself. The importance of this approach partly stems from an early viewpoint about the European market, which always has been slightly different from the global perspective. Nevertheless, future aims include a European strategy with more emphasis on focussing on similarities in this market in order to benefit from potential economies of scale. Pioneer has made important steps in this

direction since 1998⁴⁸. However, developments to achieve this plan have been disappointing. A clear bottleneck has always been the traditional organisation structure of the European network.

'Country borders are still to important in our present organisational structure. We have subsidiaries in all Euro-countries, which are individually responsible for the sales and marketing within their country. Pioneer Japan (HQ) still approaches these companies as they are an individual company within the company.'

Role in the industry and core business

The main objectives set in the 'Vision 2005' plan were to become leader in the DVD industry; to establish a foundation for Plasma technology; to develop and strengthen a line of network related products, and to expand the key device business and develop the key technologies. The new objectives in combination with the company's philosophy have changed the core business to DVD-related products and plasma displays. According to Pioneer the new vision is *'part of the technological development in the Consumer Electronics industry.'* The annual report of 2001 shows that significant growth of Pioneers' market share is evident in Europe, however, overall sales figures are still depended upon the Car-Audio products. In 2002 Car Electronics Product Group sales amounted ¥244,878 million, which is almost 39 percent of the total sales.

'The Car Audio sector only represents 9 percent of the total consumer electronics market. So in 9 percent of the market we are doing very well, however, as soon as we have a home audio product that increases rapidly in sales, than suddenly the home audio sector is three to five times bigger than Car Audio. Given this market potential, out aim is to improve our share in the Digital home audio and video market.'

Management approach in Europe before the Euro

The revised strategy in 1998 was aimed to have a significant impact on the global approach of the company. However, the implementation of this strategy was only partly successful, as the strategy had *'a certain continental element next to its global viewpoints'*. This was most clearly shown by the difference in product type and group availability across Europe that still existed in 2001. The previous approach of Pioneer whereby products were especially produced for the European market and 'global' products were articulated in terms of design and technology to fulfil the specific needs of the European (or even local), consumer was still there three years after the 'global' implementation.

Marketing approach in Europe before the Euro

Product positioning

⁴⁸ see Vision 2005 plan

Hence, the success of Pioneers' approach in Europe was still the result of aligning strategies to local market conditions. Local segmentation has led to particular product group penetration in some countries which might be less important in others. The success rate was not only a result of the relationship between the size of the country and the importance in terms of turnover but it was also related to the early introduction of different product groups in the seventies. Pioneer targeted smaller segments such as the Benelux in past, which at present is one of the important regions for Car Audio sales.

'...there is clearly a relationship between the sales figures and the time there is a Pioneer subsidiary in that specific country...Although our product positioning is based on the local consumer, the principals of product positioning are similar across Europe. The image Pioneer has in the European countries is reflected in the quality of the products. Therefore, the aim is to reduce the malfunctioning product percentage to a minimum, to fulfil the expectation of the customer by guaranteeing a high quality. Consequently, the process is more expensive, which influences the price. This might be negative when looking at the local market circumstances, however, Japanese Head Quarters do not permit price competition resulting lower quality.'

Product and promotion standardisation

Pioneers' aim was to standardise products in Europe to the highest degree possible. In recent years they were increasingly successful to do so. Limitations were often the result of small technological adjustments that needed to be made to cope with local requirements. In some countries products were sold with certain features which could not be used. Only if the local need totally differed from the European need, strategic judgements were made whether to adjust the product. Certain adjustments were at the moment of data collection only made in Eastern European countries including Russia.

'Producing on a large standardised scale gives a lot of cost advantages, however, controlling the quality of this process costs at least the equal amount. Therefore we do not standardise to produce cheap products, but to guarantee the same quality on a European level.'

Pioneers' move towards a more pan-European marketing approach was clearly evident in the ongoing optimisation of promotional standardisation. Pan-European product campaigns were successfully used in the past few years. These campaigns were often supported by global advertisements. Nevertheless, small details were still filled in on a local basis, e.g. magazine advertisements and translations.

'What you see in Europe is a similar product positioning in our communication to our customers. Most important factor we try to outline is the product quality. We see product quality as a combination of product features and product design. Therefore, both issues are equally important in the communication of our brand-image'

Distribution standardisation

Following the brand and product positioning of Pioneer aimed to compete on issues such as product features, product quality and product image.

'It is sometimes very difficult to follow all the latest developments in the CE sector, especially the recent years. Technology is improving so rapidly that you can not expect that the consumer is aware of this all. Therefore we believe that communication is the key to sell our products'.

Taking this into account, Pioneer was experiencing serious threats from the fact that specialist were disappearing over the years. In addition, it was advocated that specialists were able to explain the differences in products, or focus on specific product features to convince the customer to buy a Pioneer instead.

'We wish we could only sell our products via specialists in Europe. It would make things much more easier. In some countries the possibilities are there to use this retail channel. Nevertheless in most European countries the situation is changing. Specialists are being replaced by large retailers and alternative channels such as hypermarkets and department stores are becoming more and more important....'

Yet, with the overall reduction of specialists in Europe, Pioneer was focussing on other ways to communicate their product features. Moreover, product presentation at a retailer became more important than ever, which required investments in in-store promotion in order to present product in a prominent way.

'On a global level we clearly notice a movement from value for money to the importance of design....We have got special developed displays in most of the shops. This type of displays meet the highest standards in order to ensure the best sound quality, however they are very expensive. Nevertheless, in this way the consumer can become familiar with our product in an interactive way, which finally stimulates the sales.'

Price standardisation

Since the early nineties, the Japanese Head Quarters were setting price targets on a European level.

'At the moment we advise the going price of our products, however we would like to make this advise more compulsory.'

In other words, price harmonise either had an impact on the retailers margin, producers margin or both, indicating a significant importance of the negotiation power.

'Despite the fact that product image, design and product features might explain the difference in buying behaviour, on a European level the price is still the most important factor of buying low and mid range products.....the standards for acceptable levels differ across Europe and are just a result of many factors including local competition and distribution availability. '

Expected impact of the Euro

Foreseen changes in market environment

The viewpoint adapted in relation to the Euro was similar to most other non-European originated players in the European market; wait and see what was going to happen. With this perspective Pioneer foresaw some market changes as a direct result of the introduction of the Euro. First of all it was expected that the Euro would have a positive impact on price competition which would lead to more price competition. The underlying assumption was that the price awareness of both retailers and consumers would increase. Pioneer expected that the combination of this issue together with market distribution changes might result in an overall change in market approach. However, this approach was only based on speculation which limited the actual strategic issues that were related to this viewpoint.

'In the Netherlands we do not have a client who is representing more than 7% of our turnover, in other countries the dependency is much higher.'

Another issue related to the introduction of the Euro was the expected advantages and or disadvantages it might bring in terms of currency risks reduction. Over the past few years the yen's depreciation against the U.S. dollar and the Euro had a favourable impact on the business.

'Despite the fact that there is an exchange gain resulting from the weak yen it is also evident that a weak currency has resulted in an overall price rise of more than 15% in the past 3 years.'

Strategic Intention

Following the foreseen issues, the Euro changeover process was at its early stage primarily interpreted as *'just another currency'*. In relation to this viewpoint, the changeover process was perceived as a European process that technically needed to be solved by the European subsidiary itself. There was no technical interrelationship between the subsidiaries in terms of its IT systems, which made it possible for each subsidiary to deal with the technical changeover process individually. The Dutch subsidiary adopted the currency at an early stage for two reasons. First, the role of the local government and its viewpoints to the Euro influenced the viewpoints of managers on a local level. In the Netherlands the government fully supported the Euro from the start, which had an impact on Dutch managers and their perception.

'The Netherlands is one of the first countries that supported the Euro programme from the start. This influences the perception of Dutch managers and the way to deal with the Euro. So, it is not strange that Pioneer Holland was the first subsidiary that was fully prepared to deal with the Euro. Other subsidiaries learned from their experience'

Second, the managers saw no direct threats as a result of the Euro which made the process *'smooth and easy to handle'*.

'It is more difficult for an Italian or a Frenchman to understand the meaning of 1 million Euro than for a Dutch person, based on the dividing factor.'

Following these statements Pioneer expected that the shift towards the single currency would not necessarily lead to complete overhauls of their present strategy. Although they acknowledged that the preparation towards the Euro might have affected future (marketing) strategies, they did not yet taken significant steps in that direction. The fact that there was very little known about the Euro within the company, and that minor official guidance emerged in day-to-day operations, partly explained the wait and see attitude adopted by Pioneer in relation to the long term Euro strategy.

'In a European perspective the Euro has reduced our currency risks, however, the weakness of the Euro at the moment has made the situation worse. Only if this is changing we will respond by changing our pricing strategy.'

Implementation of the Euro

Pioneer divided products into 'long-term' and 'short-term' products. In general, it could be assumed that a specific model of Pioneer CE would have a lifetime of approximately one-year. The new products were always introduced in the European CE fair which was held in February of each year. Pioneer chose to only 'strategically' price the new products. Products with a lifetime longer than a year, describes as 'long-term products', caused 'problems' in terms of recalculations. The preparations to the changeover to the Euro started in January 2001 to deal with this kind of issues.

'In our pricing policy we aimed to price our products ending on either 49 or 99. With the conversion into Euro's it is difficult to remain this aim, therefore new price-points needed to be found.....the impact the Euro has got on psychological pricing is significant. The Euro forces to set new price-points, which are either higher or lower than the present price.'

Strategic Evaluation

While the initial expectation about the Euro was that it might have an enormous impact on price related issues, yet after the introduction of the Euro pricing has become less important. Instead, the Euro is now interpreted as a technical issue rather than a strategic one.

'The Euro has been more a symbol than a true strategic issue for our company. Though we see that we need to improve our European positioning, we don't think this is a direct consequence of the introduction of the Euro....as a result of the introduction of the Euro (and transparency) a European price is set by the EHQ for the strategic products. This implies the lowest selling price. EHQ is making sure that this price is utilised.'

Despite the fact that the Euro is not directly interpreted as having a significant impact on the companies strategy, other European developments such as the ongoing changes in distribution channels in Europe and the increasing technological competition play a are clearly becoming more important.

'It might be possible that the Euro has amplified the importance of these issues'.

Additional steps to the Vision 2005 plan are undertaken to improve the future European competitive position of the company. In this strategy there is a shift in the regional interpretation, as the current formula is moving away from the traditional country borders and focuses more on Europe as one market.

Strategic (re) positioning

It is manifest that interpretations of managers advocate that recent changes in the European market are reinforcing previous globalisation plans, whilst the Euro is not explicitly mentioned in this context. The planned strategy of Pioneer for the near future involves two interrelated key elements. Firstly, Pioneer aims to develop a European image that represents the high end products in each European market they are active. Secondly, the specialist retailer will play an important role to gain added value. Driver of this strategy has been the success Pioneer has in recent years in terms of product distinction. Pioneer succeeded to developed distinctive quality and design for many of its European products in comparison with its competitors. This has led to numerous awards and positive feedback from the critical press.

'The key success factor of CE products is the written opinion of leading magazines on a European wide basis. They set the image for your product, and based on that you can either distinguish from your competitors or not. If you can't you need to choose to position your product in a broad way, if you can you need to find the marketing to communicate this to your consumer...that is why the specialist is so important to us. We see this channel as the ideal partner to communicate our image.'

Improve the European image

The most important issue is to develop and improve the company and brand image inherent to the business approach on a European level. Essential marketing communication elements are therefore focussing on technology which is according to Pioneer a fundamental issue to generate the intended product image. Only when the market situation allows Pioneer to distinguish from the competitors they aim to use marketing to shape the image and communicate it to their consumer. What you often see is that the written product opinion across Europe is similar; however there might be a difference in emphasis of what product groups get more attention then others, given the local consumer needs. From this perspective, the marketing manager of Pioneer Benelux stresses that;

'At the moment we are having the wrong approach on a European or maybe even global level because we are not taking the differences of product importance across countries into account. Pioneer works with a marketing budget system that gives exact percentage of the turnover that need to be spend on a particular product to position the product in a European way. The market circumstances do not allow to approach this using a European policy Therefore we think it is essential to improve this approach first before other steps can be taken.'

On the other hand, the benefits of a European approach are well understood by Pioneers' Benelux subsidiary. Especially because *'we always faced the enormous marketing costs on a local level.'* Recent standardisation of promotion elements has led to a significant reduction of costs in the past few years. Pioneer standardised the in- and out store promotion material to a high degree by using the same leaflet, advertising campaigns, and shop items. This approach is made possible since the products are standardised to a high degree. Only small technical issues differ across European countries, most of the time because the local circumstances require technical adjustments.

The focus on the specialist

'We see ourselves as a retailer specialist brand. Pioneer is a brand that needs explanations, guiding and conviction before it will be adopted. Only the local specialist can give this specific brand service in most cases.'

Pioneer emphasises that distribution channels are an important product positioning element. In doing so Pioneer uses the local specialist as a representative for distinguishing products. This approach has been the policy for many years, however, has been reinforced.

'Recently there is a clear tendency of specialists refusing cheaper products. Product types that are sold by hypermarkets or large specialists are often sold at a low price. The specialist will do the opposite. They will judge your product range based on the best product and take it from there what product to add to their assortment.'

Degree of success of strategy

Interestingly, European marketing developments are more a result of cost efficiency rather than the European market of the past few years. Europe as a whole was moving too much away from the global strategy. Particularly, future plans in relation to product group concentration on a world wide basis have led to strategy adjustments. Still, European management aligns this new strategy to the local market.

'we can not act like nothing happened in Europe...what we even see is that internal developments are going faster than we anticipated, therefore I even think that the developments have speeded up our process. At least it made us realise that our strategic focus should concentrate on the combination of global and local strengths, and not on one of these elements on its own.'

Strategic Reformulation

In order to improve the European market approach, Pioneer partly changed its European structure by emphasising more on the European Head Quarters. Most importantly in this context is the development of a European marketing programme controlled by a European marketing department. Moreover, in the past 5 years subsidiaries reported their market performance and

financial situation to the EHQ. From now on this source will be expanded and used to communicate in more depth the marketing and management actions taken by local subsidiaries. EHQ's aim is to generalise these actions into a European marketing strategy. So far, this has led to serious friction among the regional subsidiaries and the EHQ.

Impact on network integration

'Friction is caused by the fact that we are dealing with subsidiaries that are used to work autonomous and therefore know how the local market should be approached. All of the sudden this perspective needs to be based on a European perspective set by the EHQ. At the moment this regional perception and the European perception are clashing.'

In order to achieve an internal strategic fit a more advanced control system has been set up, that aims to find out if and how guidelines are followed by subsidiaries. This system incorporates cost, budget and marketing implementation control. At the moment there are some practical problems with the detailed guidelines as they are set up by the EHQ. In practice some issues are too much influenced by the market environment [*i.e. a product group might be more successful in one country than the other*] and are therefore articulated in the wrong way. This generalised European approach is often one of the main reasons causing friction on a regional level.

Planned articulation of strategic changes

In the line of a more global approach, Pioneer Europe is developing standardised communication tools and channels to position its product across Europe in a similar way. Especially the development of European advertising is interpreted as being an important issue of doing so. From this viewpoint, a product orientation stimulates Pioneer's way of doing business on a worldwide basis. Pioneer's approach from a product perspective is based on the technological issues of the product itself. In their focus they concentrate on consumers that are looking for distinguishing product quality and features. According to this perception the distribution policy has been adjusted as much as possible on a European level. It is important for Pioneer that the product is bought based on expertise. It is believed that consumers will search for extra information using the specialist as their medium.

Case 4 Kenwood Consumer Electronics Europe

Organisational background

Originally, Kenwood started producing parts and components for the communication equipment industry. Although communication is still one of the divisions of Kenwood, business is expanded to home audio, car audio and other electronic equipment. Throughout the years importance of industry segments have shifted away from communication towards audio, and in particular car audio. Kenwood is now a global company with managing and producing subsidiaries all over the world, accounting a total turnover of \$2,446,419,000 (Annual report 2002), of which Europe covered 13.3 percent.

European company structure

Kenwood first local investments in Europe were made in the late eighties. The foundations of the European network were laid in Europe's largest countries Germany, France and the United Kingdom. Soon after subsidiaries were setup in Belgium, Italy, Spain and most recently the EHQ in the Netherlands in 1993. The current European network covers more than 90 percent of the total European market. Each subsidiary acts on a local level, most of the time including close neighbour countries, with the exception of the European Head as they are also distributing to other parts in Europe⁴⁹. It is manifest that most European subsidiaries act on a country basis and the EHQ does not claim to have a strategic role controlling these activities. This viewpoint stems from the initial EHQ's role which was to act as a financial institute as well as a representative for the countries that did not have a subsidiary in Europe.

'It is not a very nice way of putting it but Kenwood Europe acted in its first years only as an intermediate between Tokyo and Europe....'

Nowadays, the European activity is growing and the strategic role of the EHQ is changing slowly.

Recent company structure changes

The changing role of the European HQ from distributor to a European centralisation unit managing and controlling European activities has been the result of Kenwood's views and response to the changing global market environment. In the late nineties technology developments within the industry were moving away from the core business of Kenwood. These market developments led to a significant decrease of company growth and inevitably to an overall company loss. This in return delayed the introduction of new and improved products as no budget

was available to finalise the product development. Therefore, Kenwood could not follow the market development which has weakened their competitive position in the past few years. For this reason structural company changes have been taking place since 2001 with the main objective to improve the financial situation of Kenwood in terms of profitability and cash flow. In order to do so, three main objectives are formulated; (1) Establish a new corporate culture, (2) withdraw from non-profitable businesses and (3) create a new Kenwood style and image.

In relation to the first issue, the corporate structure dramatically changed on a large (global) scale. Four new divisions groups are set up, representing the company as a whole. Each of the Home electronics division, Car electronics division, Communications division and the Devices division is given full authority within its business, resulting in a radical change towards the decentralisation of the decisions-policy creating shorter communication lines. On the other hand, each division is responsible for its own profits and losses, which is strengthening the co-ordination by markets or even by products opening opportunities to develop global products that can be adjusted to the local market if necessary. This has clarified the company structure, with the aim to speed up the decision making process in order to improve the profitability.

Role in the industry and core business

Kenwood is market leader in the car navigation sector and overall second player in this segment. Over the past years, Kenwood invented several new car systems such as MASK (anti-theft system) and applied existing inventions into the mobile entertainment sector, such as DVD. In this particular segment, Kenwood is producing products that are based on very high standards in combination with unique selling points. The combination of both issues has resulted in a strong product image and brand image for Kenwood.

'We are developing significant different car audio systems that communicate the image we would like to have for our products. Even systems that are too expensive for most consumers, contribute to improve the overall image, which is extremely important for the sales in Europe.'

Management approach in Europe before the Euro

Since its introduction on the European market, Kenwood focuses on the relative large countries such as the UK, France and Germany. For this reason subsidiaries were established in the early nineties in order to speed up the distribution process and control sales on a local basis. While EHQ main activity was to penetrate into new European markets and improve existing relationships with distributors their role as a result of company restructuring is now to make sure

⁴⁹ Central and Western Europe, Scandinavia, Malta, Greece, Turkey and Switzerland

that the global formulated objectives are realised in the European market. In doing so EHQ operates in close cooperation with the four product group divisions.

'Our aim is not only to improve the European financial situation, but also to create a more consistent Kenwood brand in Europe with a similar brand positioning....'

Kenwood always focussed on a European network from a local (country) level to improve the European distribution of products. This has resulted in an antonymous network, dealing with individual companies rather than a European Division. Each individual subsidiary is responsible for its own policy, including goals, mission, vision and marketing. Nowadays, the European market approach is aimed to be a combination of the individual subsidiary together with the marketing and image philosophy of the Japanese Head Quarters.

'The Kenwood image is something in the head of each subsidiary, we try to combine these thoughts, and so far we are almost on the same level.'

Marketing approach in Europe before the Euro

Product positioning

From the first moment it introduced products to the European market the Japanese management gave one simple message to the subsidiaries: *'make sure we are the top brand in the segment.'* This suggestion took into account that Kenwood aimed to be a more exclusive brand. Despite the fact that only recently the first steps were made towards creating a consistent image of Kenwood in Europe by standardising marketing programme issues, current comparison of marketing policies used in the different European countries Kenwood shows that:

'A similar marketing program is adapted in each country. This is something which is in the mind of the local manager but we see many similarities. For example, Kenwood always aims to avoid price competition, distributes products via more exclusive channels and only advertises in high standard magazines...'

Product and promotion standardisation

Kenwood subsidiaries sold the same products throughout Europe, characterising a high degree of product standardisation. Only small technological adjustments were made in order to meet European market needs. Production of these products was for ninety percent in Asia, and only as an exception to the above statement, some products⁵⁰ were sold in less than three European countries at the same time. The majority of the products were sold in all the European countries that have a Kenwood subsidiary.

'The fact that we are a product driven company automatically reveals that we have a high degree of product standardisation. Once a year the new product line for the year after will be introduced to the European managers, who from there need to decide if they see potential for that product in their market or not. And even this policy is changing; sometimes products

⁵⁰ five percent of the European products

need to be introduced to all European countries we represent to improve brand consistency with products that Japan calls image drivers....'

Key element on a short notice was image consistency on a European level, which in marketing terms was translated into similar brand communication throughout the European market. So far the Kenwood logo was the only communication element that was standardised.

'We just finished our first pan-European marketing campaign and the first results are very positive. We try to find ways to improve the marketing of Kenwood and make it more European. However, these are only very recent developments based on an initiative of the marketing managers of the European subsidiaries, in close cooperation with the European Headquarters....we all see the cost advantages in standardising promotion elements....'

Distribution standardisation

Differences in distribution channels across European countries were limiting the standardisation possibilities for Kenwood.

'Especially the upcoming hypermarkets and scarcity of specialists in particular countries are an important threat for the brand image standardisation of Kenwood.'

Using similar distribution channels will therefore be the *'ideal picture'* for Kenwood.

'The essence of the distribution issue is the impact of a retailers' image on your brand image. The consumer perception of a Kenwood product will be totally different if when it is only available via a specialist or hypermarket. In each country we need to make a choice which one to use, or how to combine these channels. As a result we have totally different market approaches in Europe.'

Hence, the complexity of the European market was based on the diversity of distribution channels available in Europe. Consequently, each subsidiary approached their local market based on the available distribution channels.

'The product image of Kenwood in the Netherlands is totally different to that one in France. In the Netherlands we work with specialists and try to avoid any large retailer, In France this choice can not been made because large retailers represent more than 80 percent of the French market.'

Price standardisation

Increasing price standardisation was contradicting the approach of Kenwood in Europe. A premium pricing technique was adopted as to distinguish from competitors. Kenwood used this technique to create a more exclusive brand image. A more passive pricing approach was used to make sure that Kenwood prices were marginally above the average market prices.

'In the past people were combining components of different brands to create their own hi-fi system. Nowadays due to the fact that the specialists are disappearing, people buy a complete hi-fi system of the same brand like it is an impulse good....Taking this into account, there is a clear difference in price awareness and importance between a country like France, where Hypermarkets are an upcoming phenomenon since the late eighties and Germany where the specialist is still very important. Consumers buying via the specialist seem to focus more on product features, brand image and product quality rather than price, which are exactly the issues Kenwood is focussing on.'

Expected impact of the Euro

Foreseen Impact on pricing

Foreseen impact issues directly influenced by the Euro were only related to pricing issues. From this viewpoint, three different issues were taken into account, costs, margins and the local competition in order to price the products. Especially margin expectations of retailers across Europe differed significantly. In France for example retailers (hypermarkets) were more focussed on volume-discount, in Germany retailers expected an after sales-bonus and in the Netherlands retailers expected a high profit margin.

'There is a clear difference between pre sales margin and after sales margin. Some countries expect the lowest buying price, others expect after sales bonus....this, among other issues, makes developing a European pricing approach complicated. We do not see any implications, we even think it is better if the local subsidiary deals with it themselves...they have the market expertise and insight....'

Strategic Intention

Some Euro objectives were established centrally by the Japanese Head Quarters. This process was taken over by the European Head Quarters to establish a conversion plan in order to overcome the major problems. Therefore, the EHQ has defined European company-wide implementation rules for the Euro, in relation to strategy, accounting and IT. The rules were set as guidelines for the implementation process, but the implementation itself was decentralised. EHQ objective was for all business units able to handle the business unit transactions in Euro as of 1 April 2001. According to EHQ, handling the Euro opened two discussions; first subsidiaries needed to deal with the Euro in terms of technical changeover and second in terms of strategic introduction. Despite the fact that the European network is described as autonomous, in terms of pricing new products the Head Quarters (Japan) control the first pricing decisions. Major aims are to make sure these price levels maintain the brand-image of Kenwood and that European prices are on a comparable level among the European countries. Nevertheless, European management advocates that such an approach is executable till a certain level.

'For each product minimum prices need to be set based on their costs and a minimum margin....local market circumstances will show whether we can compete in that market or not.'

Despite the fact that there are significant steps undertaken to develop a solid short term strategy to deal with the Euro, on a longer term Kenwood prefers to wait and see, so a more intuitive strategy was used. Nevertheless, they expected that on a longer term it was very likely that the Euro would affect their strategy more significantly. Two main assumptions were made: (1) The Euro will reduce currency risks and (2) the Euro will lead to more price competition on a

European level. Regarding the impact of the Euro on a longer term, Kenwood was concerned with the weakness the new currency showed before its commercial launch in 2002.

'Changing the leading currency before the end of the transitional period, could lead to confusion or misapprehension on the part of consumers, which could even negatively impact consumption if purchasing decisions are postponed. Therefore, pricing in Euro's poses a considerable challenge to the retail sector, given the need to arrive at convenient price points in Euro's (psychological prices). Nevertheless, this is outside the control of Kenwood.'

Kenwood did not restrict their Euro changeover efforts to changing their management systems. Strategic challenges were shaped and strategic issues related to the new competitive environment and market situations were considered. Although believe in the Euro on a long term are lowest, on a short term the Euro demanded strategic response on new market circumstances. Therefore, strategic thoughts focussed on the introduction moment of the Euro as 'the leading currency' and overcoming pricing 'mistakes'.

Implementation of the Euro

Changeover to the Euro itself did not result in any technical problems that could not be overcome. In a decentralised manner each subsidiary dealt with the IT changes. Subsidiary communication and co-operation was not desirable, although several changeover guidelines were set up in advance. Most importantly from the technical perspective was clearly communicating their commitment to the Euro. In October 2000, Kenwood wrote its business partners providing them specification of their changeover plan, dealing with technical issues such as paying in Euro's. From a strategic point of view it was argued that improving the price competitive position would become more important as a result of several factors, influencing the price competition in Europe. First of all Kenwood advocated that:

'Price transparency is something that needs time to develop. On the short term we expect that prices will only be compared on country border areas. On a longer term the price awareness will grow from the country borders to the country and from the country to Europe.'

Being aware of the opportunities and threats the Euro might bring, Kenwood preferred to wait how consumers were going to respond on the new market situation. Only as a direct result it is expected that price competition would move from a local level to a more (pan) European level, Kenwood claimed that:

'We need to find an acceptable band-width for our product prices. We believe that this width needs to be around 5 percent, because even the price aware customer needs service. Therefore the local market role will remain the same, however it need to be put in a European perspective.'

Strategic Evaluation

Recent developments in technology have led to an enormous technical upgrade of CE products over the past few years. As a result the competitors' gap on technical issues, which also significantly improves the design of the product, is closing rapidly. It becomes ever more complicated to distinguish products from competitors on a European level.

'The competitive market driver is price. When you look at the CE industry nowadays, than priority number one when positioning a product is at what price is it going to be sold. There is no problem as long as your price is competitive, as soon as it is not you will experience serious sales problems, even if your design is much better than that of your competitors.'

One year after the structural changes, Kenwood is clearly searching what role to play in the CE industry. Previous main product groups such as home audio already lost its world wide competitive position as a result of technological development and fierce competition.

'You see many brands in the CE industry trying to give direction to their approach in technological terms. This is particularly important for Kenwood as we are a relative small company with not that many products groups to choose from....Present CE market is ruled by digital technology, for a ridicules low price. We can not compete with that because we can not sell that many products to make the economies of scale as our competitors do. The result is a DVD player which is double the price, and the same quality. You can not compete with that, even not if your brand is Kenwood.'

Strategic (re) positioning

The European market is a relative new market for Kenwood, which is reflected in its European market approach. Importance is given to the market in terms of turnover rather than its strategic value. In comparison with the United States (trendsetter) and Asia (Home market) Europe is viewed as a trend follower. Despite its earlier views, Japanese HQ now sees Europe as one sales market, however acknowledges that this market is best approached region wise.

'Aim is to find similarities in the market in order to combine and maximise the knowledge to approach this regions in a similar way.'

Monitoring the Internal Environment

HQ notion of the European market is influenced by the size of the European network. From a European perspective, the main advantage of the small size company is that a regional approach (pan-European) is used by most subsidiaries in terms of distribution, and tasks can be expanded across more nations. On the other hand, Kenwood suffers from a lack of European knowledge which makes them less capable of responding strategically and therefore influences its competitive position.

'Kenwood has got the tools to become a major European player and expansion of the network and tasks are relatively easy to implement. However, there needs to be a clear business direction of what Kenwood wants to achieve in this market, and how they want to achieve it.'

Degree of success of strategy

Current developments in Europe have been driving Kenwood to think and act more European. As previously elaborated, Kenwood has already been confronted with on a global scale and therefore plans were developed how to deal with these threats. However, the action taken to deal with the market developments as defined by Kenwood in 2001 have not yet led to the effects the company hoped for in Europe. Especially, one of its primary aims, image consistency on European level, seems to be more complicated to achieve than anticipated.

'There are many European obstacles that need to be overcome and we do not always know how to deal with them... We would like to see Europe as one market with one consumer.....'

Arguments for this viewpoint are twofold. First, the original setup of the European network is based on distribution advantages, with a particular focus on the country the subsidiary is located in. Second, Kenwoods' strategy is developed on a country to country base in order to deal with local market circumstances.

'Demographic cultural factors are totally different across nations. You see this not only in the type of distribution channels but also in the type of consumer. In the past this has led to a local market approach. These are so different at the moment that it seems to be impossible to draw one European picture to approach this market.'

Changes in European market view

Indirect impact Europeanisation

In the past a clear choice has been made to distribute Kenwood products via channels that are coherent to the exclusive brand image Kenwood use to have based on their design and product quality. In most countries an exclusive image was associated with exclusive distribution via specialist channels. Yet the upcoming European retailers become a serious threat to this approach. This threat is threefold. First, a similar distribution approach can not be continued because;

'we can not ignore the existence of this type of retailer mainly because they are becoming too important for the future of the CE industry business.'

Second, European retailers force to follow a more European approach given their buying power.

'If we refuse to do business with a European retailer in the Netherlands than it might have a direct consequence to the market position of Kenwood in Germany as they already distributed products via this retailer over the past few years.'

Thirdly, Kenwood is a relative small player in the market with a high dependency on the Car-Entertainment product group. Selling these products via large European retailers might lead to too much dependency on this retailer.

'This can make or break our European market position on a longer term. Obviously we try to avoid this, but without closer (European) cooperation it seems to be very difficult.'

Where design use to be the most important driver, it is now not possible to differentiate the product purely on this factor. Albeit, some consumers in Europe still have this perception, current switches in competition reduces the advantage and yet Kenwood needs to face a price competition on a European level. This has changed Kenwood's positioning into a more sales driven company.

'It is very difficult to have a sustainable competitive advantage in CE. An advantage might be created; however, it the creation process in terms of design is not in our control. When we receive a new product line from Japan which is different from our competitors it enables us to increase or recover our market position.'

Strategic Reformulation

As a direct response to the distribution changes in Europe, Japanese management has decided to produce more product types within a product line. This enables them to sell comparable products via different distribution channels. The more advanced version is sold via small retailers, while the 'basic' type is sold via large retailers and hypermarkets. From this perspective not only *'the distribution threat is being minimised but it still allows Kenwood to have price differences across Europe.'* Most recently, Kenwood changed the authority to a continent HQ level. In the present situation, HQ Japan is giving guidelines to the EHQ how to develop the strategy. Only if these guidelines can be used from a European perspective, given the local distribution situation and business philosophy of the European subsidiaries, then the guidelines will be adapted.

'Kenwoods' viewpoint is simple; we are expected to have a better view on the European market than the Japanese HQ. Therefore it is our mission to find a way how to tackle this market...The Japanese HQ tried to control things more in the past, however that did not work out the way they expected it to be...our present strategy is too flexible. Now we compare other European markets with the market circumstances of this market in order to change the strategy of those countries..... Taken this into account, the Euro is now much more for Kenwood than it was a year ago. We try to deal with it from a general perspective and aim to overcome the threats. Internally the Euro has brought our network together. We are going to make European steps in the future, not only as a result of the Euro, but it boosted the decision...'

Chapter Four B:

Case descriptions FMCG Industry

Case 5 Nutricia Europe N.V

Organisational background

Nutricia is part of Koninklijke (Royal) Numico N.V., the Netherlands-based multinational holding company that operates through brands like Nutricia, Cow&Gate and Milupa. Nutricia is a company that is specialised in high quality nutritional products. This quality is the result of more than a hundred year of experience in the dairy industry. The close collaboration with the medical profession has often given Nutricia the first movers' advantage. Nutricia developed itself more and more into a producer of knowledge intensive nutritional products. As early as 1905, the first products were exported to Belgium and Germany. Technological limitations did not allow rapid growth through exporting until the early sixties.

European company structure

Nowadays, Nutricia is active in all European countries and has production and sales subsidiaries in most of them. During the years Nutricia grew on a European level not only through export, but also by taking over companies on a local level that might have been of influence on either a local level or a European level. Decisions to take over companies are not uncommon in this industry, and is according to Nutricia management the result of *'the specialised product category we are working in.'*

'In Germany we took over a company called Upar, we did the same in the United Kingdom with Cow and Gate. These products use to be only available in those countries. We are changing this slowly because we see opportunities for these brands in other countries as well.....We have an exceptional high market share in each of the product categories we are active in the Netherlands. Although this position is not similar in other European markets, a comparable situation can be found in the German and British market. As a result, these three countries together represent almost seventy percent of the turnover of Nutricia in Europe.'

Some recent changes in the current company structure aims to improve the business thinking of the company. Most importantly in this respect are the recently introduced product market

organisations (PMO) that need to change the situation on a European level. The function of the PMO is to be the link between subsidiaries and the HQ, with the aim to Europeanise the products of Nutricia.

'What we have been doing is start to think more global while we have been acting local for many years. Nutricia has always been a niche player in the market that realised growth through acting in the same niche in other countries....we has been particularly successful in the United Kingdom, Germany and the Netherlands....this is still almost 70 percent of our turnover in Europe.....now we try to expand our business, think more global, but more importantly also try to act more global....the PMO is a direct response on how to realise this.'

Importance of Europe from a financial perspective

In 2002, Numico (*specific figures for Nutricia are not public*) realised a net income of €4,339 million which is almost 14 percent more than the previous year. The high growth was expected due to the take over of several companies in America. More than half of the turnover (59 percent) is a result from sales in North America, while 33 percent (€1424 million) is sold in Europe. Nutricia sales are approximately 80 percent of the total sales in Europe. An estimated €500 million of the sales in Europe are infant products which are produced and marketed by Nutricia. The food supplements group is the fastest growing product group.

Role in the industry and core business

The products Nutricia manufactures are various, yet, they have a clear resemblance. They are all specific nutrition products aimed at promoting growth, development and health. Within this specialisation, the company distinguishes primary and secondary core activities, reflecting the intensity of nutritional science required for product. With a specific focus on primary consumer products, Nutricia produces and markets the following product groups; infant nutrition, clinical nutrition and diets, consumer diets, vitamins, minerals and disease specific supplements. Within this segment there is a clear focus on the development of high value added products based on medical and nutritional knowledge. Products that are not closely related to this core business view are being disposed from the current portfolio.

Key Portfolio

Nutricia is market leader of infant nutrition in Europe. The product group compromises the complete range of infant milk formula, meals, drinks, juices and cereals for children up to five years old. Of particular importance are the products which represent the transition of drink and feeds to solid meals where Nutricia markets important brand names such as Olvarit, Robinsons'

and Bambix. Nutricia is also gaining a significant market share with clinical nutrition and diet products in Central and Eastern Europe.

'Infant nutrition products are the most profitable products for Nutricia and Numico. Our activities in this segment are enormous on a European level. From this perspective we can say that Europe is extremely important especially in terms of profit.'

Strategic positioning of Key product groups

Nutricia's strategy is based upon specialisation in the nutrition segment by developing new products and opportunities in several food segments for diverse consumers groups⁵¹. In doing so, Nutricia aims to realise continuing internationalisation and profitable growth and safeguarding of the highest quality in all stages of production and services. An important factor to realise the former is maintaining a good relationship with the medical and paramedical professions, based on mutual trust as well as constant improvement of products. It is therefore important that Nutricia stays on the forefront of research and innovation of nutrition. To achieve this, Numico has set up several close partnerships with the scientific community and nutritional experts on a world wide basis.

Marketing approach in Europe before the Euro

Product positioning

Nutricia products were positioned based on product features. These features were often customised and based on the high quality standards of the company. Fulfilling the local market needs is perceived by Nutricia as *'essential in order to do business in the Nutrition segment.'* It was assumed to be important for the consumer in any country that they were well informed about the contents of the product.

'The mothers of new born babies are very concerned about the health of their child. They always want to make sure they are buying the best product for their child. We gave a different definitions to what is the best in each individual country by positioning products in a different way....this often led to small product differences.'

Product positioning has been articulated in most countries by using different distribution channels. The advantage of this approach was that specialists were often capable of informing the consumers what products to buy, which had a significant impact on the buying behaviour of these consumers. This approach was in the line of philosophy of Nutricia who aimed to sell high quality products on a medical basis. Being close to the paramedics for a long period has always had a positive influence on the product image.

'Using the medical channel, such as the pharmacy is possible in most European countries, however in others we are forced to sell through supermarkets....products sold via this channel are often customised.....we do not believe that it will harm our brand image, simply

⁵¹ i.e. infants, people with specific nutritional needs and health conscious adults

because the competitive situation in Europe is not the same...our competitors are often forced to make a similar choice.'

Product and promotion standardisation

So despite the fact that product standardisation was possible in technological terms and even desirable in terms of economies of scale, there were still many products within the same product line to fulfil the local consumer needs. This was particularly noticeable in the infant nutrition product group where the three dominant countries still had significant product line differences.

'You do not only see significant differences of consumer wishes in Europe also most countries have several restrictions in addition to the European laws to quality standards of nutrition products. This has a negative impact on the standardisation possibilities of this type of products in Europe.'

While full standardisation might be the ideal picture, external forces lowered the possibility of this to happen in the near future. In addition there were still small differences in Europe as a result of product standards as set by the local government. Moreover, consumers' needs for these types of products were often locally bound.

'Our portfolio includes pan-European brands such as Olvarit, These types of brands are used on a European scale, however, the products sold under this brand-name are different. Similarities can be found in terms of branding and packaging but not in terms of contents.'

Packaging of infant products had been standardised to a higher degree to save costs. This was realised by using the same logo, brand name and format for internationalised infant products. However, the product description and information was country bound.

'Using packaging to communicate contents and usage is vital for our products. Present packaging does not allow to put this amount of information in six or seven languages.'

Expected impact of the Euro

Foreseen changes in market environment

Nutricia initially saw the Euro as a threat for some European countries. The local economical market circumstances differ significantly per country which according to Nutricia would lead to a different expectation of the likely impact of the Euro.

'We believe that the Euro will have a negative impact in the more developed countries, as it will influence the competitive situation in those countries.....in particular it is important that it will become easier for potential competitors to enter the market...'

While it was expected that this might have a negative impact on the Western European countries where Nutricia had a significant market share, it was also believed that it was an opportunity to improve the situation in other European markets where Nutricia was not an important player yet.

'On a long term it will be an opportunity for all the European countries...on a short term we see opportunities to increase our market share in southern European countries.'

Strategic Intention

From an overall point of view, Nutricia took an abstaining position in relation to the Euro. Expectations in general were low, and potential threats were described as not too difficult to overcome. However, there were numerous concerns spoken out in relation to the potential impact of the Euro on the market situation. Particularly significant in this context was the expected increasing purchasing power of international sales organisations.

'It is at the moment only a relative small part of the total sales, but we expect that international will grow in their importance as an indirect result of the Euro. Their power will increase significantly.....'

Over time it was expected to lead to a change of the current policy. Nutricia would adapt to this expectation when international trading organisations indeed used their potential purchasing power to buy products under the same conditions in Europe.

'We expect that this will take some time before it develops, but we are sure it will sooner or later. This will have a significant impact on our competitive position, as it will influence our margin on a European scale. We need to find out how to respond to this.'

On a short term, however, concentration of the Euro introduction was limited to its technical issues and its impact on pricing related issues.

'The Euro might have an impact on our profit margin forcing us to redefine our goals, but we do not expect that it will lead to significant changes overall.'

Nutricia stresses that the Euro in this context is seen as an issue that is boosting the trend that has already been acknowledged.

'The purchasing power of large retailers who operate in the international context is increasing rapidly. This is an issue that has been arising over the past few years....we already adapted the guidelines for our international production process to this situation..'

Furthermore, Nutricia expected that this trend would develop further in the near future. Although it was not suggested that it will directly lead to a change of Nutricia policy, it was expected that this might influence the policy on a longer term.

'It is expected that more and more pan-European retailers will show up in the European market. Eventually they will change the competitive situation as they will have more international demands. Of course this will influence our policy.'

Implementation of the Euro

Based on the foreseen issues, the approach taken to the Euro has been primarily a technical one. Initial thoughts were how to change the computer system to deal with the Euro. Some critical questions during this process were how to convince customers to start using the Euro at an early

stage, when to introduce the new Euro prices to the customers, and for how long and when to use double pricing. In order to get used to the financial issues in relation to the Euro, Nutricia decided to introduce the Euro internally in October 2000. This relative early adaptation date gave Nutricia the time to overcome any unexpected problems. A similar approach is followed by other subsidiaries in Europe, using guidelines as set up by the Head Quarters. Individual differences occur among the subsidiaries in terms of adaptation dates, though there are no other significant differences.

'So far the changeover went very smoothly. We did not face any problems we did not calculated in advance. We get different views from our customers. Some welcome the early changeover while others are not ready yet and therefore find it difficult to deal with the Euro at such an early stage. We made sure that we kept both customers happy...'

The Euro was only used to make small adjustments in the pricing strategy. Adjustments were made on a product pricing level, and overall it was expected that on the short term no significant changes to the existing policy were necessary. Nutricia claimed that it was very likely that a changing market situation as elaborated previously would lead to an increase of price competition in combination with the Euro.

'More international retailers will lead to more price competition on a European level...it depends however what product you are discussing. The Euro will increase the pressure to harmonise prices for more standardised products. Therefore we expect that the impact will be not that significant for our company on the short term.'

Strategic Evaluation

Recent developments including the appearance of global players [*i.e. Nestlé, Heinz and Danone*], and the internationalisation of retailers, have a direct impact on the competitive position of Nutricia. The former has a significant impact on the competitive situation in European countries that used to be dominated by particular players. With the upcoming international players response should not only be on a local level, but also on a European level. *'Nutricia can only lose in these markets so we need to make sure that we protect our position.'* The latter highlights the local approach taken and forces Nutricia to think and act more European.

'The international retailer comparison will continuously try to find similarities and differences of the product portfolio in Europe in order to strengthen their purchase position. We either need make sure that this comparison can not be made or make sure that the differences are acceptable.'

The Euro has shed a light on price differences across Europe, which are according to Nutricia explained by local market circumstances. Moreover, Nutricia does not give that much importance to price and rather focuses on quality of the product. In most markets the quality element for

healthy products outweighs the significance of price. These both explain the impact of the Euro in this particular industry as well as the importance given to the Euro by Nutricia itself.

'The Euro is seen as a technical issue that needed to be overcome. Albeit the introduction cost a lot of money to make technical adjustments, we do not see any serious threats as a result of the introduction of the Euro. Indirectly it might have boosted the international price comparison by our retailers, but we think that this is an issue which would arrive sooner or later.... We already expected that international retailers would become an important factor in the nutrition market development. We now see, since the introduction of the Euro that their power is increasing indeed...'

This development is significant for the more standardised products of Nutricia. In particular infant products such as milk powder or baby food are not interfered by local restrictions. For this product group buying power is very important, especially when taking into account that retailers are gathering market price information from other European countries where the same product is sold.

'This can be a threat but it can also be an opportunity. Sometimes during negotiations it is important that we are a European firm which enables European opportunities when setting up a new contract. We believe in European contracts, as this is becoming a more important part of our turnover. Besides, it is a way to avoid parallel import which has always been an enormous threat to us. From this viewpoint we see more European opportunities than threats; however, we are not always capable to negotiate on a European level.'

Strategic (re) positioning

Nutricia wants to grow in the European market and become less dependent upon the English, Dutch and German market. Conversely more importance needs to be given to these countries in order to achieve this growth. Nutricia is searching for ways to lower the costs by using the production facilities of these countries. Ideally the strategy in Europe will be to protect the market share in countries where Nutricia is market leader, which seems to be difficult taking into account the upcoming competitors in these markets. Market developments, in particular the internationalisation of retailers and the increasing European competition, have led to significant strategy adjustments over the past decade. Modifications in the organisational structure enabled Nutricia to respond to these changes. *'Changes in the external environment are now identified in an earlier stage which makes it possible to fine-tune the strategy if necessary.'* Nevertheless, the most significant impact on the market strategy of Nutricia is often caused by the introduction of new legislation.

'Most of our marketing is still country related as there are huge differences in for example product standards and legislation. This asks for a local market implementation which might be contradicting the initial strategy.'

Importance of local approach

In order to remain competitive in the European market, Nutricia needed to undergo a structural change that meets the 'new' market circumstances and enable them to develop a European business strategy. In 1998 three product marketing organisations (PMO) were added to the existing organisational structure. The Infant nutrition, Clinical nutrition and the Nutritional supplement PMO are each responsible for the product development and marketing of this product group. In addition to this structure, Nutricia introduced sales organisations for Northern, Central, Southern and Eastern Europe, which are responsible for the implementation and control of the marketing programme on a regional level. Nutricia hopes to stimulate the opportunities to benefit from economies of scale. Not only contributes the PMO organisation to the standardisation possibilities, also the present product portfolio the combined production efforts, the consumer needs and technology play an important role in Nutricia's standardisation attempts.

'Standardisation of marketing is contradicting the local market circumstances; however, in the present market circumstances controlling the costs seems the only way to compete. We need to make sure we have advantages on this level. This should go further than maximising the production opportunities. Products should also be positioned in similar ways in Europe. I don not see possibilities for all the products we produce, but I do for most of them.'

Possibilities of pan European Approach

The organisational structural change improved the European thinking of Nutricia. However, it needs be noted that this structure is relative new to the organisation, which often causes difficulties in strategy implementation that are difficult to overcome. Difficulties which are most clearly revealed in the positioning of most Nutricia products.

'Nutricia's strategy is European. We have clear company goals in combination with European guidelines how to achieve them. This includes the tools we need to use. However, implementation of these tools is still local, with a local interpretation and changes to the strategy if necessary.'

Strategies are developed by the HQ based on advise of the PMO and regional sales organisations. This suggests that subsidiaries are 'implementers' of this strategy. Practice shows that local market circumstances not always allow that the chosen strategy can be followed. Flexibility of the strategy is often necessary to make adjustment in order to make a strategy work in a particular country. How these adjustments need to be made is up to the subsidiary or the sales organisation on its own.

'We should aim for more strategic control to facilitate consistency of the chosen strategy....'

Strategic Reformulation

The local adaptation causes serious problems in terms of strategic consistency. Subsidiaries across Europe have conflicting interests which need to be balanced. It is expected that implementation of a European policy will take more time. Clear difficulties are found in terms of adapting cultural and political factors in this policy. *'At the moment the European network is too much guided by the Dutch subsidiary.'* This is mainly because of the size of this subsidiary, which has made the ideas and interests of this particular subsidiary more prominent. For some countries this policy is not acceptable, which causes friction between subsidiaries PMO's and regional sales organisations. A paradox situation is the result, where too much flexibility in the present policy allows making changes to the strategy implementation in order to avoid friction. In contrast, initial plans when setting up the PMO structure was to improve consistency of the European strategy implementation.

'We need to find a way that we can get to a policy which is acceptable to all of us. That structure does not exist yet. At the moment it is too easy to make local adjustments to the strategy which is contradicting the European viewpoint.'

Case 6 Hero B.V. The Netherlands

Organisational background

Hero is an international branded consumer foods group based in Lenzburg, Switzerland. It was founded in 1886 by Henckell and Zeiler, and after the death of Zeiler in 1889 the company was renamed after the shareholders at that time; “Henckel and Roth”. The Hero brand name was created from the first letters of the shareholders’ names. Initially the focus of Hero has been on jam production. This production was not only for the Swiss but also for the surrounding European markets. Based on its success formula, Hero expanded their European business by opening production facilities and sales organisations in France in 1912, the Netherlands in 1914, Spain and Portugal in 1922, Germany in 1931, Italy in 1967 and Poland in 1971.

European company and portfolio structure

Today, Hero is active in most European countries, either with the Hero brand itself or with local brands that came part of the Hero groups as a result of a company takeover in the respective country. In this context Hero realised European growth through taking over brand names such as St Gallen (France), Roco (United Kingdom), Lido (Italy) and Betuwe (The Netherlands). Most brands are nowadays sold as part of the Hero brand. The most important take over in the history of Hero was realised in 2000, when the German company Schwartz acquisition took place. Hero is a relative small company with 3,500 employees, of whom more than 3,000 are working in the European market. Because one country has been more active in terms of R&D there are some pre-dominating countries within the European market. For Hero the history and production facilities seem to be of more significant importance than market size. As we can see in the above table, there are several countries that outperform countries that are bigger in size.

Role in the industry and core business

Hero has achieved the leading position in jams and marmalade products in Europe. In addition, Hero has strong positions in the fields of baby food, cereal bars and baking products. Given the width of the present product portfolio, Hero draws a general distinction between two sectors: Consumer Foods and Baking Aids. The Food segment comprises product ranges such as jams, pasta, fruit dessert and baby food. Baking aids is a more recent product sector of Hero and has been expanded significantly since the merger with Schwartz. Products in this portfolio are mainly sold in Germany, Switzerland, Poland, France and the United Kingdom.

Key product group

The consumer foods sector is by far the most important product group for Hero. Most products in this sector are fulfilling local market needs and are therefore only sold in one country⁵². From an international portfolio perspective there are several products which are sold in most European countries. The most important product range on this level is the fruit products. In particular jam with products such as Hero Delicia, Hero Classica and Hero Extra occupy leading market positions in Switzerland, Spain, Italy, Portugal, The Netherlands and France.

Strategic positioning and approach for key products

Hero's primary strategy was based upon specialisation in fruit related products. Hero aimed to resume its position as a leading manufacturer of branded products in this segment. In particular consistent concentration on the Hero brand formed a main objective of the company. The company's clear focus on branded business, resulted in several withdraws from segments that are not in the line of this philosophy.

'Hero products should always have some kind of fruit element. Recently, we sold several companies which had nothing to do with our core business. This is only the first step in this direction, in the future we aim to be Europe's fruit specialist.'

The strong point of Hero in the past has always been its local approach; fulfilling market needs with local products. This was due to a long tradition of producing products on a local level, which often gave a different perception advantage for the local consumer.

'A Dutch consumer thinks that Hero is a Dutch brand, the same does the French, Spanish and Italian consumer. This gives a very strong dimension to the Hero brand. Consumers know our quality, what we stand for, and based on that have a certain expectation. We always tried to fulfil that expectation from a local level, taking advantage of this consumer perspective. This has led to a great variety of products in Europe.'

Marketing approach in Europe before the Euro

Product positioning

The current marketing approach was based on the market position each individual subsidiary had in its local market. For example, Spain was market leader in baby food, Germany in serial bars, Switzerland in microwave meals and the Netherlands in fruit drinks. The product portfolio of Hero was so diverse and based on the local market circumstances that it was difficult to standardise all marketing mix elements. *'The brand name Hero has a total different value from one country to another.'*

'If all these elements would match from the start then you would have no problems. But in practice we always need to take a closer look at local market circumstances... we simply can not ignore these.... It is already difficult enough to create consistency on a local level to guarantee a similar brand positioning...'

⁵² For example, Hero drinks are only sold in the Netherlands and Hero cereal bars are only sold in Germany.

Product and promotion standardisation

'75 percent of our product portfolio is still local, and 40 percent of these do not have the potential to be sold elsewhere.'

This stimulated Hero to follow another approach to standardisation with a focus on communication.

'Hero is a brand that needs to have the same load or image on a European level. There are already several similarities in brand perception. Most Hero products are sold based on the emotional aspect, rather than the contents of the product.... We try to sell the brand not the product, although the product needs to fit the consumer perception.... What we have are products that are exactly the same because they are produced in the same factory...for several reasons a breakfast juice is sold in The Netherlands with preservative and in Germany and France without. This has a significant impact on the taste of such a product, which even makes it complicated to compare.'

The success of the Hero brand was based on international brand standardisation with a different product portfolio sold under the same quality criteria. There were clear international guidelines for packaging and logo use for the brand name, in order to create a similar product appearance and improve consistency. However, some elements such as physical packaging format and the advertising campaigns were still locally bound. A clear boundary in the standardisation process of this element was the language.

'Before there are opportunities to overcome the differences of taste on a European level, we need to standardise other marketing mix elements. This implies that there first will be a focus on communication, this to influence the consumer perception. At the moment there is a total different mind-set across Europe. This is the result of tradition and the autonomous approach that all subsidiaries in Europe are allowed to apply.'

Distribution standardisation

The similar aim was to sell the products via retailers that had a collection of A-brands in their assortment. European brand consistency was one of the critical issues that preferably was reflected in the distribution and pricing policy. *'Hero is in principle a premium priced product that needs to be in association with the retailers that are selling our products. We aim to select retailers that can communicate our positioning.'* This approach was used in Europe, not as a result of European marketing, but more based on positioning guidelines of the HQ. *'We see that existing gaps are closing in Europe. Retailers are also looking for image consistency.'*

Expected impact of the Euro

Foreseen changes in market environment

The foreseen impact of the Euro was only perceived from a local market perspective. Most important issues from this perspective were; the impact the Euro might have on pricing related

issues in the Netherlands and how to follow a satisfactory introduction of the Euro to their customers.

Foreseen Impact on pricing

The steps taken to deal with the Euro did not lead to a complete overhaul of the existing strategy. A relative simple policy was followed by Hero, whereby the previous prices were divided by the Euro factor and rounded of to the nearest acceptable psychological price barrier. This method to calculate the new prices prevented Hero of making pricing misjudgements. The average customer response to the new Euro prices was positive.

'Our Euro prices show small differences in comparison with the guilder prices. We have chosen not to change our pricing policy as a result of the Euro which makes the process both easy as well as acceptable for our customers.'

From a consumer pricing perspective it was expected that price comparison from guilders to Euro would only been made one month before the introduction of the Euro on a consumer level. Moreover, it was also expected that small price changes would be acceptable for consumers based on the time needed by consumers to get used to the new currency.

'Even if the consumers respond in a way we did not anticipate on, it is always possible to make small price adjustment. However, we do not expect this to happen...'

Strategic Intention

The Euro has been primary approached as a technical issue that *'is the same for everybody and just needs to be done, whether we want or not.'* From a technological perspective no significant problems occurred and the process has been described as *'smoothly'*. From a strategic perspective the expectations directly related to the Euro are modest and particularly related to pricing issues, whereby the pricing policy itself was not influenced.

'The Euro has no significant impact on our strategy whatsoever. This is mainly because we are working on a local level, and it is therefore difficult to view it from a European perspective, as there is no such policy. The Euro has an impact on the pricing of products, even so it is just a recalculation, nothing special.'

The foreseen opportunities and threats in relation to the Euro were in Hero's case country bound. Not much attention has been given to the potential impact of the Euro on a European level.

'The problem is that Switzerland is not joining the Euro. This issue limits the priority given to the Euro by the Headquarters. Consequently we needed to arrange everything ourselves. What you still see is that we report in guilders to the Headquarters while we work only in Euro's since three months ago...How pricing are going to develop is difficult to predict. It will be combination of price acceptance by the consumer on the one hand, while competitors might introduce new price point on the other...'

Implementation of the Euro

Interesting in this respect was the early technical Euro preparation made by the Dutch subsidiary. Hero the Netherlands was ready to switchover to the Euro from January 1998 as a result of IT

changes that needed to be made to overcome any potential millennium problems. The present computer intra-network of Hero was based on country specific software, with no significant similarities. This reduced to cooperate on a subsidiary level. Hence, each subsidiary dealt with technical Euro issues individually. No specific guidelines were given by the HQ. An identical approach was followed for strategic issues. Adaptation dates were set by the subsidiary, and often based on the local market circumstances and the expectations of the subsidiary itself. Hero the Netherlands followed two different adaptation dates. One for its customers and another date for its consumers. All customers of Hero the Netherlands were invoiced in Euro's since January 2001 and were obliged to account in Euro's since July 2001.

'It was important for us that we made arrangements with our customers at a relative early stage. Make sure that we have the correct price, but also make sure that our customer is ready to deal with Euro's.'

From a consumer pricing perspective Hero the Netherlands waited till the end of November 2001 to introduce the new Euro prices. From this moment the Euro became the leading currency. A late adaptation date from a consumer perspective was chosen to overcome any price misunderstanding.

'You can choose to make a nice Euro price such as € 0.99 a year in advance, but it will not work. Consumers will look at the price in guilders, as long as they need to pay in guilders. The new currency will influence the buying decision only after its introduction on a consumer level.'

Strategic Evaluation

Current market developments made Hero rethink their chosen market strategy. The local approach has been the key factor of Hero's success in Europe. Differences are created based on cultural aspects, and consumer's needs are approached from a local perspective. However, *'this does not suggest that there are no similarities of consumer needs in Europe. What it does suggest is that the needs are fulfilled in various ways.'* The awareness of Hero that consumer needs can be integrated in Europe, leads to a new developed market perspective of Hero in relation to the European market; products with a proven international potential should be marketed in a consistent way whereby cost advantages should be gained.

'Internationalisation also suggests that marketing adjustments need to be made, and markets need to be approached in consistent ways. The other side of the coin is that internationalisation enables our retailers to compare marketing related issues across the border. We need to make sure that if comparison can be made that there is consistency, or we need to make sure that comparison can not be made at all.'

Strategic (re) positioning

European developments such as the Euro have led to more cooperation on a European level. As a result to these developments emphasis of the future strategy is given to a combination of two market approaches. First there is the existing local market approach that is build up based on fulfilling local market needs that is unique for a particular market and that can not be fulfilled in the same way in another market. On the other hand, first steps are taken to improve the cooperation between subsidiaries in Europe. A significant step in this direction is the recent guideline that aims for consistency on a European level. However, this is more an initiative from the subsidiaries rather than the EHQ. Hero is trying to find out how they can apply a local success/expertise in a European context. Each subsidiary is going to define a core product group which is successful in the host country and has potential to be sold on a larger scale.

'The Netherlands is the only subsidiary manufacturing cool juices. For this reason they are the knowledge-centre for this product within the Hero Group. Therefore has Hero the Netherlands full authority and responsibility to develop a European strategy for this product group.'

Monitoring the Internal Environment

For the European products there is going to be a clear policy with positioning and communication guidelines within each subsidiary needs to act. These decisions are made by the HQ and the country responsible for the product category on a European level. On the other hand, there are many products that have no potential for internationalisation. For these products there are no guidelines other than a similar position in the line of Hero brand perception.

'In the food industry it is of major importance that you sell a variety of products within the same range to fulfil the consumer needs. However it is not always possible to market many products at the same time. From a retailers perspective the market position you have plays a significant role in the possibilities based on the sales potential of a brand. From a consumer perspective, it is important that you differentiate from your competitor. First movers' advantage is very important to offer more product variety in the future.'

Changes in European market view

It is expected that on the longer term the Euro will force Hero to standardise strategic issues. Several issues have contributed to this decision. First of all there are differences in European product standards that do not allow full product standardisation, and therefore are price differences acceptable. Secondly, each subsidiary still adds a local element to any Hero product to make sure that there are barriers that are difficult to overcome. Nevertheless, these arguments are contradicting the previous European viewpoint of product internationalisation. From a European level there is an aim to standardise products to a higher degree, despite the European product standards. This will eventually stimulate European thinking and acting as a result of country comparison.

'As a direct result of price transparency in Europe, you now get the request from a retailer to get a product for the price in Poland, the conditions of Spain and the commercial support of Italy. We need to make sure that we can explain the price differences in Europe....The Euro forces us to think on a European level for these strategic products. That is the issue we are dealing with now. However, no clear decision in relation to this threat has been made yet. Only when this decision is made, we will make specific marketing adjustments. I know that this stage will appear sooner or later.'

Strategic Reformulation

The introduction of European product groups is therefore being used to level the brand value in Europe. The aim is to influence the local brand perception by adding consistent (European) elements to the mix that will harmonise the brand perception to a more consistent European level on the long run. Hero is clearly a strategic developing company, who used to be a combination of several stand alone companies, and now wants to combine the forces to benefit from each others expertise. Despite that these companies are still autonomous in most of the decisions they make; there is a move toward European integration on a commercial and a R&D level. Especially the concept where one country is responsible for one product group has increased the cooperation on a European level. Processes have been started to introduce Hero products which are already a success in other countries. To facilitate the European integration, there are now monthly meetings to discuss the developments of the European market and the role of each subsidiary in this market. In addition, on a equal systematic basis there are projects started incorporating some subsidiaries to develop European products.

'First steps are being taken. We are already discussing how we should differentiate the present portfolio to make sure that there is a clear difference in comparison to other countries. For example Hero Germany has introduced products that certainly have potential in the Dutch market. Then again consumers can compare prices as a result of the Euro, while we know that we can not sell the same product at a comparable level as the Germans. Hence the Euro improves our strategic visibility.'

As previously indicated, Hero aims to achieve a more European approach. One step in this direction has already been discussed; a clear focus on fruit related products. Another step is to diminish the local brands in Europe and sell everything under the Hero brand name.

'The Hero brand is the most important asset from a European perspective. Therefore there are many guidelines what we are allowed to do with the brand and what not. Especially new products need to fit in the Hero brand perception. Moreover, the HQ aims to control the product development situation more then they used to do. This is mainly because they try to focus on introducing European concepts rather than local concepts at the moment. This does not suggest that we can not develop new products, but it does suggest that products with a European potential have a privilege above new local concepts.'

The international perspective can be related to specific product categories of Hero. Hero is trying to find ways how to maximise the synergy in terms of production and distribution, in order to

realise growth on a European level. This viewpoint shows that there is a clear move towards European thinking. This viewpoint is purely based on the consideration that country expertise should be used on a European level.

Limitations for pan European market approach

From a European perspective there are three elements that play a significant limit the possibilities for Hero. First, Hero does not have the manufacturing facilities to produce internationalised products. Secondly, packaging is produced in several countries that have their own demands how this packaging should look like. Main factors from this perspective are the size and format of the package and the language used on the package that leads to significant product differences. Thirdly, and maybe even the most important issue, is the technical possibilities to align the process in order to fulfil the needs of consumers that are often different based on local market circumstances such as culture and eating habits. A specific process need to be started to fulfil these needs. Standardisation from this perspective is difficult to achieve, or will not lead to the expected economies of scale.

'The wish to standardise the products if obviously there, but much needs to be changed to realise this. That is why we start with the concepts that are already internationalised. We also aim to standardise new concepts with a international potential.'

Planned articulation of strategic changes

The European thought has only been established recently. Initial steps in this direction are made by developing strategic product categories in Europe. The product categories definition derived from a product portfolio analysis among the countries that have their own production facilities. Aim of this approach is to find a clearer strategic focus on the four core areas of fruit products, muesli bars, baby food and baking aids and to develop leaner European group structures.

'For each manufacturing country we announced one product category for which this country will be responsible in Europe. This responsibility includes that the country itself needs to make sure that this product group becomes successful on a European level.'

Products need to be put in a local perspective to estimate the sustainability of a specific concept in the local market. A concept will only be introduced if the potential [based on research] will indicate that Hero will be among the top three producers in a specific segment. This position can be interfered by numerous market factors such as market potential, competition, margin possibilities, legislation and expected marketing budget. Even so, international products can be compared, which makes it dangerous not to have a European marketing system.

'Our aim is to make sure that we can both work with a national and international product portfolio. In addition, internationalising food products is possible to a certain extent. There always comes a moment that you reached the taste and eating habits/attitudes boundaries of countries. We (Hero Netherlands) expect that the local element will not disappear in the near

future. In contrast, knowledge of other countries will be used to introduce new products to the Dutch market. This will not make a difference to the Dutch consumer, but it will for the Dutch and international retailer.'

Case 7 McCain Foods Ltd. Northern Europe

Organisational background

McCain was founded in Florenceville (Canada) in 1957 by the brothers Harrison and Wallace McCain. Today, the company is still privately held by the McCain families. From a small scale French fries operation the company has become the world leader in the frozen potato industry. The McCain group of companies has reported \$6.1 billion in international consolidated sales for the fiscal year ending June 2002. This is almost one third of the world wide French fries production. This makes McCain the world's largest French fries producer, which employs 18,000 people globally and operates more than 55 food processing plants in 13 countries serving over 120 countries worldwide.

European company structure

McCain is active in all European countries; however they only have production facilities in Belgium, France, Poland, United Kingdom and the Netherlands. These production facilities produce products for the European market. The French production facilities have a similar role as the Dutch facilities and therefore produce for the south European market. Poland does the same for Central European market.

'Holland is a regional base for Northern Europe; France is a regional base for Southern Europe; and Great Britain serves the UK. There are great advantages in having such a structure across Europe's potato growing region, because if you have a problem in one region you can always supply your key customers from another and never let them down.'

The plants are located in strategic countries to serve the other countries in Europe, with the exception of the plants in the U.K. which only produce for the British market. The Netherlands is the largest producer in Europe, since Holland is a major source of potatoes. This also makes the Netherlands the most important European exporter, serving besides the Dutch market; the German market, the Scandinavian market, and all southern European countries with the exception of France, Spain and Portugal.

The importance of the European Market

McCains' first export activities to Europe started in 1965. For over ten years the company sold potato products to the United Kingdom only. Nowadays the McCain network is spread all over Europe; however the activities exploit in the United Kingdom are still of significant importance to the total European business. In terms of turnover it implies that the UK on its own is 17 percent of the total turnover of McCain. To point out the significance of this market, Northern Europe including Germany the Benelux and Scandinavia are representing 7 percent of the total turnover.

The European market is McCain's largest market after North America. In terms of turnover this implies that 37% of the total is realised in Europe. The importance of the European market is based on its selling potential given the cultural habits and the importance of potato products in most European countries. This potential was recognised by McCain at an early stage of its existence which nowadays results in a long tradition of selling frozen products in this market.

'I am continually surprised when looking at markets regarded as mature in Europe. One would think that England is a mature market. But the growth there, and our share, is very solid. Then when you look across the rest of Europe, say Germany where for years we have been very successful and have been the market leader by a large margin, consumption is nowhere near what it is in Britain. I don't know if Germany will get to the level of the United Kingdom in terms of consumption, but the indication is there is lots of scope for greater growth. So, at the moment we are working hard to both build the market and our share in Germany....The Dutch subsidiary is the most important European subsidiary in terms of European export. This is mainly because there is a lot of high quality raw material available in the Netherlands. Therefore we produce about one third of the potato products consumed in Europe.'

Role in the industry and core business

McCain manufactures about a million pounds of potato products every hour. These products were initially targeting the caterers in the European market, before expanding into the retail market in response to the growing demand for convenience goods. Frozen potato products are still targeted to both caterers and consumers. The caterers are the most important target groups in terms of turnover in Europe. This position has been strengthened in recent years with the growing number of Quick service restaurants. The fastest growth is occurring in the emerging European markets such as Southern and Eastern Europe. Almost 35 percent of the European turnover is realised by serving these restaurants.

'In most markets in which we are active, joint businesses have been built in retail and foodservice sectors. We try to balance them. The McCain name is advertised and marketed in retail, and on the foodservice side we place great emphasis on providing good service to our clients.'

While frozen potato products is still the core business for both the caterers and the consumer market, McCain also produces green vegetables, desserts, pizza, juices and beverages, oven meals, entrees and other food products. Nevertheless, almost 90% of the European business concentrates on frozen potato products. McCain is overall market leader of frozen potato products in Europe. In some small countries such as the Netherlands and Belgium they occupy the second position in the market, due to the potato background of these countries and its strong competition in these markets as a result of large amount competitors.

'....in a number of the European countries we are going head-to-head with Dutch competitors.'

Strategic positioning of Key products

McCain's strategy was based upon an unchanged mission statement for the past 40 years; *'McCain will produce products that are of a consistent high quality'*. In order to achieve this mission, McCain was operating very close with both buyers as well as potato suppliers. McCain, invested large amounts in the later to make sure that the highest quality for their products can be guaranteed. *'No matter to what extend our company is operating internationally, the success of our business is the result of cooperation with our partners of trade on a local level.'* Therefore, the investment made in suppliers was for McCain a key factor in order to realise business growth. Being a family owned company gained certain advantages that positively influenced the global opportunities. McCain worked with a worldwide marketing committee. It got together for the purpose of sharing ideas.

It's no good being a global company if you can't leverage your strengths. We do it by gathering six or seven people - who are leaders in their function around the world - to let them talk. We do it with retail marketing officers. We do it with our manufacturing vice presidents, who meet twice a year somewhere in the world - generally at a plant. So, we are very much coordinated globally.'

A high degree of network integration was possible to a certain extend. Subsidiaries tried to follow similar strategies in Europe, however, practice showed that local market circumstances played such an important role in strategy formulation and implementation of McCain that cooperation limited to advising issues. Integration in this context focused more on improving production processes and sharing R&D ideas. From a strategic perspective the integration was on a relative low level.

'In principle we have the same strategy, however we apply it to the local market which asks for alignment of the strategy. Moreover, we are working on a marketing budget basis. You can not apply similar marketing in all European markets if this budget is not comparable. That is why you see local advertisement in the major markets, and no advertisement in the other markets. From a marketing perspective we all work on local level, pure budget driven.'

As McCain's business mission noted, product quality was a key factor to the success of the company. Because McCain was dependent upon the raw material available their aim was to control this process as much as possible. Therefore McCain employed agronomists and potato specialists to assist growers in producing the best potatoes. Main focus was to ensure that dependability and consistency of supply and top quality end products for the consumer can be guaranteed. In addition, McCain had a large agricultural research team who worked with farmers and governments to develop new varieties of potatoes. Above all it was important for McCain that they stayed at the leading edge of technology by continuously developing new technologies and upgrading machinery. The knowledge and expertise McCain has gained over the years contributed to their possibilities to develop new products based on the core product; potato.

Therefore, McCain has been influential in the development of new sectors within the frozen chips market.

'The biggest success in the past few years has been with Home Fries in the UK, where it is brand leader. Our team there has done an outstanding marketing job. Some of the ideas have been spread throughout the McCain world. We also have a good range of new products in Germany. In France the Smiles product has also done very well, and there are a raft of others now testing which will soon be launched.'

Marketing approach in Europe before the Euro

Product positioning

From a process viewpoint, McCain always strived for the best product quality, through upgrading the technology of the production. In the last five years McCain invested more than \$880 million in new plants and upgrades. The results were evident in unsurpassed quality assurance. In addition;

'McCain's agricultural research teams work with farmers and government agencies to develop new varieties of potatoes and new methods of handling and processing to assure dependability of supply and product excellence.'

While global positioning was a must for McCain, practice showed that the strategy was driven by budget rather than standardisation. McCain's argument was based on consistency in terms of product quality. However, it was evident that based on a different marketing budget per country; there are significant differences in expressions across Europe. This had an impact on market development, market positioning and product success rate. However, its impact was not only caused by its internal limitations, external limitations played a similar role.

Product and promotion standardisation

There was one major issue that limited the possibilities of product standardisation in Europe; the availability of raw material. Each country had its own class of potato with its own 'colour, shape and taste.' This caused quality differences in Europe, which could not be overcome during the production of the frozen potato products. Moreover, local consumers had different perceptions how the products of McCain should taste based on the different raw material used, but also based on a different technological process used to give a particular taste to the product. The promotional issues directly related to the product were standardised to a relative high degree. Consistency could be found in terms of packaging. The logo, lay-out and colours were standardised, however, the product communication was local. This included the product brand-name.

Distribution standardisation

McCain products in Europe were sold by large retailers such as supermarkets or frozen products specialists. The guideline from a distribution perspective was that retailers should be chosen based

on their positioning in the market. This would fulfil a certain profile that was in the line of or an addition to the McCain brand perception.

'In principle there are similar retailers in the European market fulfilling the same role, however, these retailers do not position in a European way. What you see is that this is locally bound, based on the wishes of consumers. On the other hand you do see European concepts that are more successful in one country than in the other. For example a retailer such as Aldi is a low profile retailer using a similar concept in more than one European country. Although this profile does not fit with our brand vision, we can not avoid this type of retailer if they have a very important market position, like Aldi in Germany who represents more than 40% of the supermarkets.'

Expected impact of the Euro

Foreseen changes in market environment

The foreseen impact of the Euro on the business opportunities of McCain was mostly perceived as a technical issue rather than a strategic one. From a strategic perspective, some concern has been showed from a potential increase of price competition in Europe.

Foreseen Impact on pricing

Price competition is very intense in the frozen food sector across Europe. *'It's much more price-sensitive than one would think.'* While pricing was competition based, the quality of frozen product was pretty erratic, due to the existence of many private labels in this sector. McCains' aim was to consistently raise the level of quality. Any focus on price rather than product quality works against McCains' market approach. Therefore the potential impact of the Euro on price competition was being identified as a serious threat.

'We already identified a trend towards more price competition in the European market as a whole. Retailers use this tool much more often to increase or maintain there market share. We expect to see this trend developing even more rapidly after the introduction of the Euro.'

Strategic Intention

Despite this concern the Euro has been primary approached as a technical issue. While it was expected that the technical implementation would bring some serious problems, the implementation was described as *'easy.'* McCain found it important to deal with technical issues at the first place, so the organisation could get used to the Euro and employees could be trained to deal with the Euro to make sure that no other technical problems would occur.

'The first issue was to make sure we would be ready on time, get people trained and get used to the new currency as soon as possible....we needed to make sure that we could deal with Euro's if our customer demanded that. We expected that changeover would happen at an earlier stage, but it is actually something you see happening now, six months before its introduction.'

From a strategic perspective no issues were identified other than its potential impact on pricing competition. McCain chose not to respond on these speculations, instead they preferred to wait

and see what was going to happen with the market as soon as the Euro was introduced. Although McCain foresaw a changing market environment, in particular from a future strategic pricing perspective, no significant steps in that direction were undertaken in order to deal with these potential changes. The fact that there was very little known about the Euro within the company, and that very little official guidance has emerged in day-to-day operations, partly explains the wait and see attitude adopted by McCain in relation to the long term Euro strategy. Instead, the concentration of the introduction of the Euro was on technical implementation. From that perspective, some guidance has been given to most of the subsidiaries in Europe. This has been the result of close cooperation between McCain the Netherlands the EHQ and the Canadian HQ.

'We believe the close cooperation smoothened the Euro changeover process for the company...McCain the Netherlands could give the support to other subsidiaries because of its commitment to the Euro. This is more the result of a long advertising campaign stimulating the Euro by the Dutch government, rather than the subsidiary's believe in the Euro.....'

Implementation of the Euro

McCain added the new currency to their IT system in October 2000. The computer intra-network of McCain was based on country specific software, with no significant similarities. This reduced technical cooperation on a subsidiary level. Instead each subsidiary dealt with technical Euro issues individually. No specific guidelines were given by the HQ other than a deadline before changeover should have finished. Strategic implementations are limited to the re-calculation of prices from guilders to Euro's. A relative simple technique was used to calculate the new price levels. Interestingly, from January 2001 the Euro became the leading currency, so prices were made Euro-proof and consequently psychologically less acceptable in guilders. McCain did not receive any negative response to their chosen strategy.

'We do not have a final vote in the consumer prices, though we can influence at what level the retailer is going to compete. Our early switchover to the Euro did not have any significant impact on the consumer prices...'

Strategic Evaluation

Six months after the introduction of the Euro on a consumer's level, McCain claim that no significant changes in the frozen potato industry have occurred as a result of this phenomenon.

McCains' strategy is based on the following perspective:

'We always try to achieve the goals we and the HQ set in advance. From a subsidiary perspective the response on the external environment is simple; try not to respond; only if it is having a significant impact on the industry we would reconsider our strategy....But why should we, we are seeing excellent growth in Europe. This year has been interesting, inasmuch as there have been harsh economic conditions around the world. The Euro has fallen lower in relation to other currencies. There has been a very low Dutch potato price. There have been BSE scares in Europe, and the terrible foot and mouth disease disaster in the UK. Yet, in spite of this, in just about every single market in which we are doing business,

our tonnage is up anyway. It's across the range - potato specialty products as well as french fries. That's in a harsh year, so I think we are going to see in future some very good results.'

McCain sees no need to make any significant adjustments to the present strategy as a direct result of the introduction of the Euro. McCain management perceives the Euro as *'a pricing issue, nothing more and nothing less.'* This viewpoint did not change after the introduction of the Euro. The reason why management defines its impact as non significant is based on two different elements. Firstly, McCain's objective is to avoid price competition as much as possible, and aims to compete on other elements such as unique product quality.

'McCain is in nine of the ten countries market leader. In most European countries there are only two other players and the rest will be private labels that sell their products based on price. We will not do that, on the contrary, our product price must indicate the quality we are selling. Therefore we are always the most expansive brand in its segment.'

The second argument that McCain sees as an important element reducing the potential impact of the Euro is the followed product customisation across Euro which makes it difficult to compare products and prices. Products are not more customised as a direct result of the introduction of the Euro. Management chose to make product comparison more complicated in the early nineties to fight the upcoming threat of parallel import in the European countries.

'McCain products are customised to a relative high extent. This has many advantages, we can adopt the products to local market wishes and we can avoid any cannibalisation....Customisation happen in several ways, it can either be total product adjustments, or just simple techniques such as selling different quantities.'

Strategic (re) positioning

McCain encourages entrepreneurship through autonomous, local management as regional executives are responsible for establishing and executing their own strategies as they see fit. *'This decentralised approach holds bureaucracy at bay and is often seen as the key element to the success of McCain'*. This is important in relation to the European potato industry as its nature is based on local competition, with local players selling private labels.

'McCain has a local marketing approach. Most European subsidiaries concentrate on introducing new product to the local market. Most of the times we need our entire marketing budget to promote these products.'

The present strategy to achieve growth is leading the company philosophy and is often put into perspective in relation to external market influences, such as the Euro.

'In relation to the external factors we ask ourselves to what extent it would have an impact on our possibilities of growth in Europe....the Euro does not influence this what so ever. We still see the same possibilities to grow in the existing markets...'

Degree of success of strategy

McCain has had virtually continuous growth and not having to go through the tough times that many other companies experienced in the way of restructuring, downsizing, disposal of major assets, and so on. When one thing didn't work, McCain could move over to another idea. Only, early in the company's history there were a few ups and downs. The company on average has seen volume double every five years for the past forty-three years. *'It gets tougher as the numbers get bigger. But then the opportunities get bigger as well, and you can take advantage of it.'* Part of the success comes from organic growth, and part comes from acquisition. Acquisitions are opportunistic. *'You don't just say: I am going to make acquisitions this year.'* It depends on if good ones are there to consider. One of its factors then taken into account are various economic conditions in the world, all of which can have impact on growth. But over the long run it is expected that the business will keep growing.

'Over the forty-three years there have been years when volume or profits have been behind what they may have been in the previous four or five years. One year you may take a breath before surging forward again. That will happen. You can't have a continuous straight line of profit growth. The world is not like that due to macro economic factors. But broadly speaking, if we could double it again over the next five years from today's base, I think the shareholders would be pleased.'

Strategic Reformulation

While McCain stresses that the Euro itself not significantly influence the strategy of the firm in the European market, there are certainly some recent market changes as a direct or indirect result of the Euro that are welcomed by McCain. Most importantly in this context are the upcoming international retailers.

'People bemoan the fact that there seem to be fewer retail operating companies. I don't see what the problem is. Most retail markets are, or are becoming, more concentrated with fewer outlets. The big are getting bigger and better. There are some wonderful retail groups around the world that are going global. They are good companies. They force us to be more efficient, and there is nothing wrong with that.'

The potential threat of price transparency is not perceived as such. One argument, product customisation, has been discussed previously. Another argument that is reducing this threat for McCain is the fact that there are not that many A-brand manufacturers in this industry often gives McCain the advantage that retailers, based on a reduced choice, are likely to choose for McCain.

'the retailers has the power in terms of what products will be adopted to the assortment on the other hand if the retailer is looking for a particular quality product and they would like to add quality to this product line then McCain is very often the only option.....'We like our retail business. If you are No. 3 in the market maybe you will have a tough time, but if you are No. 1 or No. 2 you will tend to survive and do well'.

Importance of local market approach

McCain chooses for a local approach based on 'our understanding of consumer behaviour which is diverse across nations, and even within groups within a nation. We aim to understand this diversity and adopt our strategy.' A modification of promotion is the result of local consumer needs which lead to different (localised) products. The result is that McCain advertisement concentrates on local product development. Only when this product is adapted to another European country then McCain will find out if the promotion concept used in the original country is suitable for the other market.

'In Germany the television commercial shows potatoes served on a diner table with a glass of beer nearby. If the same advertisement would be used in France, consumers would probably find it offensive and ineffective, based on the fact that wine is the usual drink in that country. Simple elements show that our product is very cultural sensitive.'

Planned articulation of strategic future

'The reason why we choose for this approach is again based on the marketing budget available. These budgets are extremely important to our market approach, in other words plans will be based on a budget. It is difficult for us (subsidiary) to change the budget based on every market change we notice.'

The budget driven approach of McCain has certain limitations because it is driven by financial issues rather than content issues. The company has a clear goal in what to achieve in Europe and how to achieve it. Any external factors that are coming across are viewed as a potential threat and from there how they can be reduced so that growth can still be achieved. Marketing from this point of view is serving the growth objective, and is therefore often viewed within the company from a programme adaptation perspective. The key question for McCain is how the subsidiary can make sure that growth is realised within the subsidiary region. Local adaptation and product brand awareness are driving this approach based on a country specific budget. The following argument explains this statement in more detail;

'Once a quarter we have a European meeting in which the management control reports (MCR) are discussed with the EHQ. These reports include all kind of standard measurements such as market share, turnover, profit etc. Underlying statement of McCain in this context is if you can't measure you can't manage.....we discuss the MCR on an individual subsidiary basis. If anything is going in the wrong direction than the EHQ advises us how we should deal with it temporary. If it turns out to be a long term issue than adjustments will be made by the HQ, based on our advice what are the possibilities in the market.'

Case 8 Nestlé the Netherlands

Organisational background

Nestlé the Netherlands is a subsidiary of the Nestlé group, world's largest international food group with 479 factories and over 230,000 employees worldwide. Nestlé directly operates in 88 countries and sells their products all over the world. This outlines the company's wide geographical spread, which has been expanded through both organic growth and numerous acquisitions. The Nestlé group is controlled by the Nestlé SA holding company, based in Switzerland. Nestlé began in 1867 as a producer of milk and dietetic foods for children. However, numerous other food products have been added to the range over the years, and the company is now a leading player in the international food industry with a diversified range of food and drink related products, as well as pharmaceutical and cosmetics interests. Nestlé is in general highly acquisitive, which leads to growth in existing business and expansion of the brand portfolio. It also creates new business as there is not only a core focus of acquisition activity but also a strategic expanding focus. The most common motivations for diversification include growth, profitability and risk reduction. Nestlé's approaches for increasing growth are geographic expansion, innovation and renovation and channel growth.

'One of Nestlé's strengths lies in ability to diversify while still maintaining a line of products and strategic brands that support the company... Nestlé is able to maintain a focused product line in those sectors in which it has already invested.'

European company structure

In terms of geographic expansion, the management of Nestlé's businesses in the food industry has first and foremost concentrated on the European continent. The importance of the European market is not only reflected in terms of sales but is also clearly affected by the European origin that influences the company policy and decision making processes on a world wide basis. In terms of sales Europe accounted for almost 32 percent of the groups' food sales in 2001. The growth of the European market is relatively low in comparison with the other zones that are recognised by Nestlé.

'We have a corporate goal to achieve a real internal growth of 4 percent. This goal does not apply for Europe. We realise that Europe is much more developed than the other markets we operate in. That is why in principle we are happy when we realise a growth of 2 percent.'

In addition, Nestlé aims to work as decentralised as possible, within the limits imposed by basic policy and strategy decisions, as well as group wide need for co-ordination and management development.

‘All our research centres, wherever they are, are financed and controlled by the headquarters and receive necessary input mainly from the strategic business units, based upon requests from the markets.’

Importance of Europe from a financial perspective

The degree of success Nestlé has achieved varies among the components of its corporate strategy. Overall, Nestlé’s success can be seen by the profits made on an annual basis. The following table give a better insight in the turnover development, the zone development and product group development in the 2000 and 2001. In this table it can be found that sales are growing while earning are slightly decreasing. This is the result of an increasing competition in Europe which can be seen in the sales-result relation from this zone. Moreover, the beverage product group, which is the most profitable group of Nestlé, is more successful in zone Americas than in Europe.

Table 0-1: Nestlé sales result in 2000-2001 per region and per product group

Net Sales (in millions of CHF)	2001	2000	% of sales 2001	% of sales 2000	results 2001	results 2000
Sales	84698	81422				
Earnings before interest	12444	12516	14.7	15.4		
Net Profit	6681	5763	7.9	7.1		
Sales per region ⁵³						
Zone Europe	26742	26285	31.6	32.3	2783	2753
Zone Americas	26598	25524	31.4	31.3	3531	3503
Zone Asia, Oceania and Africa	15458	15710	18.2	19.3	2598	2673
Other activities	15900	13903	18.8	17.1	2149	2015
Sales per product group						
Beverages	24023	23044	28.3	28.3	4259	4318
Milk pro., nutrition, ice cream	22953	21974	27.1	27.0	2572	2620
Prepared dishes, cooking aids, pet	21324	20632	25.2	25.3	2026	1948
Chocolate and biscuits	11244	10974	13.3	13.5	1234	1166
Pharmaceutical products	5154	4798	6.1	5.9	1255	1212
			Source: Nestlé Annual report 2001			

Role in the industry and core business

Nestlé gears its activities in Europe towards both the consumer market and the professional market. The marketing of consumer products is organised in five product groups; Drinks, Dairy products (dietetic products and ice cream), Culinary products, chocolate and sweets, Pharmaceutical products (mainly baby food). Not all the products in this group are internationalised. On the contrary, most Nestlé brands (approximately 3,050) are sold locally. With a product port folio of more than 9,000 items worldwide represents a wide range of products. Among these products are several brands and concepts that stand out because of their

international performance. Moreover the subsidiary is free to develop products. This might be on the level that a particular strategic brand is not introduced in a particular country, but instead an alternative product is introduced. If any local product becomes successful then the European SBU will try to find ways to introduce the product on a larger scale⁵⁴. In other words, the combination of two elements are predominantly important in the decision making model of Nestlé: the local market circumstances and the local R&D.

'Local product innovation is extremely important. Each subsidiary is given enough space to develop and improve this element. Only if it is successful in one country products will be introduced on a larger scale. If this is the case, we will try to produce efficiently on a European level. In a meeting of marketing managers the possibilities for a particular concept in other countries are being discussed. If it is agreed that there are possibilities then the positioning, packaging, logo etc. are developed by the SBU.'

Strategic Brands

Nestlé has a variety of brands representing the different product sectors in which it operates. Nestlé's six strategic brands include Nestlé, Nescafé, Nestea, Buttoni, Maggi, and Friskies. The most successful brands in terms of sales are Nescafé and Kit Kat.

European management approach

In 1997, Nestlé established a four-pillar strategy to improve all aspects of business, from the supply chain to consumers. This strategy should act as an inspiration for day to day management within Nestlé, to continue to seek to deliver improving profitability and increasing sales growth. The four pillars include innovation and renovation, consumer communication, product availability, and operational efficiency. Innovation and renovation was mainly implemented through marketing and R&D. Within this strategic pillar, synergies were created so that inventions are applied across diverse product lines. The strategy to maintain consumer communication focused on building brand loyalty. Product availability, which is motivated by maximizing sales, is realised by ensuring the distribution of the best products for consumers. Nestlé's strategic priorities were focused on delivering shareholder value through the achievement of sustainable, capital efficient and profitable long term growth. Nestlé's vision to achieve this continuous growth was based on two elements; high quality standards and a continued strengthening of the brand portfolio. *'For the later the Nestlé group needs to invest heavily, which has been a strong point of the firm for a long time.'*

⁵³ In this table the sum of the region result is not the same as the sum of product group results. This is the result of capital investment in Europe and zone Americas, which is included in the former and not in the latter.

⁵⁴ i.e. Kit Kat Chunky was developed in the UK five years ago, and is since this year available on a international level

Nestlé was a company that in principal worked on a local level, and believed it needed to be close to the local consumer. This most clearly reflected in the decentralised approach Nestlé set up as early as 1865. Each subsidiary was responsible for its own achievements. *‘Nestlé only provides the tools to work with.’* However, there has been a changing situation where the HQ aimed to control more than R&D alone. Financial aspects, such as decisions about how a company was financed, branding, quality management and certain core competences were directly controlled by the HQ.

‘We don’t do corporate level strategic planning in a separate corporate planning department. Instead, we use a combination of bottom-up and top down approaches in markets, regions, and strategic product groups.. What you see is that this communication is getting more and more important. In the past we were only reporting financial issues, while nowadays we present complete plans which are discussed in detail with several other business units.’

Marketing approach in Europe before the Euro

Product positioning

Nestlé approached the European business opportunities no different than other regions around the globe. Nestlé’s aim was to maintain a business strategy based on long term sustainability. In other words a similar approach was used in any European country where Nestlé was active taken into account the local legislation, cultural and religious practices. These guidelines were all described in Nestlé’s corporate business principles, which are used to create similar responsibilities and values. These basic rules were developed to make sure that the highest standards of conduct were aimed for. Most important issues from a European viewpoint were innovation and operational efficiency. In all European countries there was the aim to innovate in new products and technologies to meet the needs of the consumers in a sustainable manner.

While the business principles in Europe were similar, there were numerous local drivers that had a significant impact business approach. Most important from this perspective were the many conflicting legal requirements. Nestlé continued to maintain its commitment to follow and respect all applicable local laws in each of the European countries. Therefore there were often limitations for pan-European business approaches as a result of the present low degree of law harmonisation.

‘Certain local restrictions are another local driver. This also explains the danger of using a centralised approach, you will end up with either a customised product or a product that is opposite to our business philosophy of fulfilling the local consumer wishes.’

Since the four pillar strategy has been introduced in 1997, more thought has been given how to optimise the European growth and margin through focus and concentration. No significant changes on an external level regarding competitive advantages creation took place, however,

more focus has been given how to optimise European opportunities for strategic brands by optimising internal aspects.

Product and promotion standardisation

As soon as consumer similarities were found, a European approach would be followed in terms of product and promotion standardisation. Brands with a similar image needed to be positioned in the same way. Nestlé aimed to standardise the marketing mix elements for this type of product. Although, for other global brands such as Magie the guidelines were less detailed. Despite you see similar promotional issues such as the same logo, packaging colours etc., clear differences can be found in product contents and advertising message.

'The brand philosophy of Nestlé is simple; it is ideal to have a strategic brand, but if the local consumer wishes are different than you are forced to position this brand differently in this country.....Standardising promotional elements is important from an efficiency perspective. We aim to have the same handling during the production process, so we can optimise the costs. It also allows us to produce the same packaging in the same factory for more regions. But if there are local market wishes such as a different format like 100 grams instead of 150 grams than we will fulfil these wishes....'

Distribution standardisation

Using the same (European) retailer was not excluded in Nestlé's distribution policy, aim was to negotiate with these retailers on a local level. On a European level, the aim was to avoid retailers that might had a negative impact on the Nestlé brand. However, this policy could not always be adopted.

Price standardisation

Nestlé used a local market based pricing concept to price their products and be competitive on a local level. Prices were the result of market circumstances, and price competition with similar brands was often not being avoided.

'What you seen in Europe are enormous consumer price differences which most of the time is the result of a different margin expectation of the retailer. We can try to influence the consumer price, but will never succeed for the full hundred percent. We do not have the power to do so.'

Expected impact of the Euro

Foreseen changes in market environment

Nestlé saw the Euro merely as a technical issue that 'needed to be overcome'. The only direct relationship made with strategic issues was its potential impact on pricing related elements. Most importantly from this viewpoint was the relative low expected impact of the Euro on the pricing policy of Nestlé.

'When you take a closer look at who is making the consumer price decision, then you will realise it is not often Nestlé, but more often the retailer. Nestlé obviously has a vote in what is going to happen with the prices, however, the final consumer price is set by the retailer.'

Besides dealing with the Euro from a technical perspective, Nestlé also welcomed the Euro from a buying perspective as they saw clear opportunities to benefit from the Euro to optimise cost efficiency on a large European scale.

'This has led to a review of the existing buying process, we try to optimise cooperation in order to benefit fully....'

Foreseen Impact on pricing

The approach taken by Nestlé to pricing related issues was to avoid that the Euro would have any impact on the pricing policy. According to Nestlé this could be accomplished by minimising the impact of the Euro on the existing margin. While retailers could then still use the Euro to change the final consumer prices, it would not influence the strategy of Nestlé. This strategy was possible to follow as Nestlé did not use psychological price setting techniques to sell their products.

'For us it is only a recalculation of prices to another currency. This will not influence our margin as we will not change our price at all.'

Also from a price differences perspective in the European market, the company did not expect that the Euro would lead to significant changes of buying behaviour of their customers. In this respect it was noted that many factors influence the price setting of Nestlé products and often price differences are unavoidable and therefore easy to explain. From this perspective it was mentioned that margin expectation is one explanation of price differences, distribution costs, currency risks, production efficiency, product standardisation are just some other aspects that had significant impact on price differences in Europe for Nestlé products.

'There are price differences for comparable products, but we think that these are acceptable in Europe. What bothers us are not the international price differences, because these are explainable, the problem is the local price differences for our products. We aim to control these, however that is not always possible.'

Strategic Intention

At an early stage of the Euro adaptation process the company realised that pricing issues were relatively easy to overcome and could even be ignored. This approach led to three different issues in relation to the Euro that needed to be dealt with. First, and most importantly, were the identification and implementation of technical issues such as IT changes and accounting issues. Second, was when the introduction of the Euro to the company and their customers should take place. From this perspective a distinction has been made between the introduction on an internal level and on a customer level. Finally a strategic moment needed to be chosen when to changeover to the Euro on a consumer level.

'Making the Euro leading by introducing psychological Euro prices on a consumer level at an early stage does not make sense. We prefer to wait as long as possible before making the Euro leading on a consumer level.'

The planning process of Nestlé in relation to the Euro also reflects their chosen standpoint in relation to the potential impact of the new currency. Therefore, from a corporate perspective, emphasis was given on the technical problems that were faced as a result of the Euro adaptation. The software that was used by Nestlé was identical at all European subsidiaries, so change over to the Euro was organised by the HQ, while subsidiaries were free to choose a moment to implement it, however not later than January 2001.

'No guidelines were given by the Headquarters, other than final dates for implementation and more technical related issues....'

Implementation of the Euro

Nestlé the Netherlands chose to introduce the Euro internally as soon as possible to *'get used to the new currency in terms of accounting'*. The possibility to invoice and pay in guilders for their customers was still there till the official changeover in July 2002. However, Nestlé the Netherlands stimulated their customers to invoice in Euro at the earliest convenient date.

Strategic Evaluation

After the introduction of the Euro, the potential impact of the new currency became more transparent. As a result standardising the price element for strategic brands in Europe to a higher degree has become particularly important, because it was found that both national and international retailers started to compare prices across borders. Price differences for strategic brands are being avoided for two reasons. Firstly, price differences need to be explainable and acceptable for retailers otherwise it will harm the negotiation position of Nestlé which might lead to margin reduction. Secondly, large price differences endanger the possibility to re-import products. This can be avoided if similar price arrangements are made across countries.

Strategic (re) positioning

The two arguments present the most significant direct and indirect impact of the Euro for Nestlé. From a direct impact perspective, Nestlé has the same opinion about the Euro as before its introduction. *'We did not foresee a strategic impact of the Euro in the past, and we do not foresee one now.'* Nestlé's aim has always been to make sure that all rules set by the consumers' organisation and governments are being obeyed so no additional problems would occur, so the Euro can be seen as *'just another currency'* for Nestlé.

'We did not do anything with our pricing strategy to make sure we did not ignore any rule set by any organisation.....we did not misuse the Euro to implement price changes.....'

From an indirect impact perspective, Nestlé's has always been very careful with setting up European contracts with international retailers. This approach has been based on the fact that they are afraid that European negotiations might lead to lower margins.

'Setting up a European contract will cut our margin, given the negotiating power of the international retailer.'

However, there are significant changes in the market environment that oblige Nestlé to respond.

'A international retailer such as Ahold is smart enough to use their power to make us think how to do business on a European level. Of course there can be a win-win situation there, but I we believe that we will harm our position if we start negotiating on a European level.....we often get threats from these retailers that they will not do any business in the future if we do not change the current situation. We need to respond, but how is not yet clear.....'

Strategic Reformulation

'We as Nestlé Holland have only guidelines how to operate within a specific product portfolio. In principle we are free to develop, change or extent this portfolio, as long as we stick to the guidelines of this specific brand. So in a way you see a clear European business strategy, however, it is very flexible to marketing it your way.'

The response to the market changes has been twofold. From a European perspective there is the wish to Europeanise the strategic concepts to a higher extend, while on a local level the subsidiaries prefer to fulfil the local consumer wishes.

Impact on network integration

Developing a European campaign for most brands causes friction between the HQ and subsidiaries. Subsidiaries are used to a certain freedom of business with clear guidelines, and are even sceptical about the potential of European marketing programmes as they are set up by the European SBU's. The belief of this type of programmes is modest based on previous European failure of similar concepts.

'Some years ago, a CEO Manager aimed to standardise all marketing elements of the Nescafé original product. After the development of the advertising campaign the first protests started, simply because the positioning of the Nescafé brand is not similar in all countries. This can either be the result of culture, consumer preference or product customisation that took place in the past....this is not something you change from one day to the other....As it is difficult to predict in advance how successful a European approach for a certain concept will be, the first step that is done as soon as the results are available is trying to improve them by adding local advertising campaigns.'

he conviction of the HQ to focus more on internationalisation of concepts to realise growth will certainly have an impact on the network integration. As previous attempts have shown limited success, the European SBU's now see it as a key issue towards growth in the European market.

'What you see is that recently more and more issues are centralised in order to improve the European policy.'

he small changes in the matrix structure of the organisation have flattened European organisation components in which a few layers of management have a large span of control. Europe is being seen as one market managed by zone (European) managers. Each division works in close cooperation with these European managers to find out to what extent global strategies can be implemented. All technological tools are available to optimise the relationship between subsidiaries. Aim is to share information in order to overcome inefficiency. Therefore, close cooperation is focussing on a product management level and on a marketing level.

'This is the advantage of being such a large company; many concepts are already developed so there is no need to do it again. That is why Nestlé S.A. stimulates regular meetings to create new ideas.'

Besides that the steps undertaken are driven by European growth, it is also stressed that a more efficient European network will solve other strategic problems faced by Nestlé. Top management would like to turn its large size into strength and eliminate liabilities associated with overcapacity. As a result, Nestlé is using its current array of brands and products as a strength against uncontrolled growth and overcapacity accumulation. The company has had difficulty in doing this, particularly in Europe where employees have formed unions making cutbacks to the labour forces a difficult task. Emphasising more on existing strategic concepts, also suggests that other concepts need to be cut back, to make sure Nestlé is operating in its core business.

Planned articulation of strategic changes

Increasing efficiency in Europe has been one of most important topics since 2001. With the aim to increase internal efficiency, Nestlé introduced GLOBE, a programme that is intended to enhance performance and efficiency in all geographic areas where Nestlé operates in order to better compete. GLOBE aims to standardise information systems and all master data to streamline the internal organisation. In addition, another programme has been set up to optimise the competitive position in Europe by reducing the complexity of the network. First steps in this direction were the addition of European zone managers, while in the future other elements will be added to flatten the organisation to a higher degree.

Organisational change is the main steps to improve the European competitive position. With the added dimensions to the organisation the decisions of a subsidiary are now influenced by several

levels. First of all are the targets set by the HQ, which are often the financial issues. Second, the European managers put this in a European perspective and give more detailed budgets how to achieve a particular goal. More in relation to marketing strategies is the interference of the third level, the SBU of a particular product. On the other they give clear definitions of product related issues such as packaging, logo and image they want to achieve.

'We as Nestle Holland have no vote in decisions made for strategic brands such as Kit Kat. We simply need to follow the rules set up by the SBU for that particular product.'

These SBU units are also responsible for the consistency of strategic brands on a European level. Therefore, reporting plans and development for these products is extremely important. In order to achieve consistency these SBU's try to control the external environment in close cooperation with the local managers.

Chapter Five:

T⁰ analysis

The analysis comprises two chapters; a T⁰ analysis which examines the situation before the introduction of the Euro and a T¹ analysis which examines the same situation after the introduction of the Euro. The current chapter involves the T⁰ analysis. This chapter is divided into three sections; the identification of the European positioning, the definition of sensemaking direction dependency, and the interpretation and development of the intended Euro strategy.

The first part will serve as a starting point to find the extent to which the companies have a European strategy and translated this into marketing actions before the introduction of the Euro. In this part, cross comparison and preliminary analyses are made to compare and contrast similarities and differences to assess the firms so they can be positioned in the T⁰ matrix accurately. In doing so, three sub-parts are defined to accurately position the firms in each industry based on the within case analysis definition of T⁰ to finally make the comparison between both industries.

The second part will look at sensemaking of managers under the condition of equivocality. We are particularly looking for evidence in terms of processes that stimulate the sensemaking of the manager to potentially treat the Euro as a technical issue, a strategic issue, or a combination of these two. The outcome of this analysis will provide a path of dependency indicator that defines the extent to which actors are guided in terms of European thinking which is based around the issue of coordination on a European level.

Based on the first two parts the third part will identify the extent to which managers reveal sensemaking taking place on a higher level in relation to the Euro, which is translated into steps that are undertaken to understand the potential impact of the Euro. The outcome will distinguish three distinctive strategic options [levels of commitment] of managerial interpretation how to deal with the potential impact of the Euro.

5.1 Cross CE case comparison of European positioning T°

5.1.1 European portfolio

A European orientation of the product portfolio indicated the extent to which firms identified similar opportunities in Europe. The firms differed significantly in terms of portfolio spread in Europe. The widest spread was found at Philips and Sharp, while Pioneer and Kenwood operated with a smaller portfolio in this market. In case of the Japanese firms we saw a product driven approach based on the development of the products which took place in Asia. Who was making the decision where these products should be sold significantly influenced the consistency of the European portfolio. In case of Sharp this decision was made by the Japanese management who were advised by the EHQ. The sales potential was often based on market structure and market size. The local management could not significantly influence what was going to be sold in their country.

At Pioneer and Kenwood, the local management had a significant vote in the decision making process. Although one would expect portfolio differences as a result of the more autonomous approach, this was only the case at Pioneer, and even in a very limited scale. What it implied was that Pioneer subsidiaries had some small differences in what portfolio products they would adopt. Small differences in portfolio could also be the result of product fine-tuning on a local level. At Kenwood the choice what to adopt was not significantly different across the European subsidiaries as they saw a similar potential for the products in their country. At Philips, by contrast, the consumer was more often taken into account when the European potential was defined. In recent years the company considerably lowered the degree of product variation within each product group to create a consistent portfolio in Europe. To sum up, Philips, Kenwood, and Pioneer showed small differences in Europe whereby Pioneer had some differences that occurred due to product adjustments that were made to some products on a local level. The lowest degree of European portfolio similarity was found at Sharp.

5.1.2 European production: network integration

Differences in the product portfolio were not necessarily the result of strategic choices made by the companies. It was not always possible to produce the products on a large scale as the result of limitation in production facilities, the technological possibilities to produce on a large scale, or the necessary European product adjustments. The companies invested heavily in technological

intensity to improve the extent of proprietary technology aiming to produce in as least facilities as possible. This allowed them to reduce costs and control the quality of the production, and on the other hand it increased global integration.

All companies produced global products as a result of the production investments; however, not all global production could be sold as it was in European countries. Most products needed some technological adjustments to meet the local requirements. Important factor of adjustment necessity was the location of the production facility. Products that were produced in Europe often did not require adjustments, while products produced elsewhere needed to be adjusted if this interfered with the consumer experience. Kenwood particularly faced this problem as all products were produced in Asia. Sharp products were also produced in Asia, and so were the majority of Pioneer products. These companies faced a significant increase in costs when the adjustments needed to be made afterwards. For Pioneer and Sharp this led to small scale European production, while it also reduced the European potential for some products produced by these companies. Philips had production facilities that were producing for the EU only, which lowered the number of adjustments that needed to be made.

5.1.3 European Sourcing and Benchmarking

The continuous search of the companies to reduce costs illustrated the pressure for cost reduction in this industry. Cost reduction was seen as benefiting from global sourcing opportunities such as low factor cost locations or exploiting economies of scale. Both issues imposed a need for global integration. From this perspective the Japanese cases were less integrated than the European one. This difference was caused through the location of the production facilities. Whereas Kenwood could benefit from low labour costs in Asia, so could Philips in Eastern Europe. The potential benefit for Kenwood was often minimised as a result of the additional costs of transport and import) taxes. Pioneer and Sharp were often in the same situation; however, they sometimes could manage to produce the products in Europe which significantly lowered the additional costs.

5.1.4 Identification of a European consumer

As previously pointed out, selling similar products in the European market could be a product development decision. On the other hand the decision could be the result of the identification of similar consumer wishes. The segmentation policy therefore aimed to find out if the firms saw any possibilities to group consumers of various European countries in a similar way. Based on the outcome, the complexity or simplicity of the firms' understanding and definition of the European

consumer could be analysed. These revealed that for all four cases guidelines were set up how the consumer should be approached. However there were significant differences in the extent to which these guidelines were implemented. This resulted in the fact that Philips was the only company that successfully identified global segments by focussing on consumer experiences and knowledge. In addition to this identification there was a strict policy how the guidelines should be implemented by the subsidiary.

The other firms chose for a product bound segmentation technique that focussed on the price awareness of consumers and the importance of product features and design. There were significant differences to what extent these guidelines were implemented by the subsidiary. For most products this meant that segmentation was the result of local decisions. There were some exceptions at Sharp who successfully introduced European products with strict guidelines; however the majority of the Sharp products did not follow similar rules. It can therefore be concluded that Pioneer and Kenwood did not have a definition of a European consumer, while Sharp showed some notion of a European consumer. According to the identification of Philips the European consumer met the picture of the global consumer so a global segmentation technique could be applied.

3.1.5 European product positioning

The existence of a European product portfolio and the extent to which a European consumer segmentation policy was followed were two important elements that helped to understand the product positioning similarities and differences of the firm. Positioning strategies can be characterised as attempts to move a brand to a particular location within a perceptual product space. The location (actual or desired) of a brand in the perceptual⁵⁵ space portrays the image of a brand vis-à-vis its competitive alternatives. Significant differences in this positioning can be the result of within country differences [*i.e. product portfolio*] and across country differences [*i.e. different substitutes*]. Sharp most clearly struggled with the product portfolio differences that caused a different perception within the country as the portfolio contained low profile products based on selling similar products at a competitive price and high end products based on a distinctive technology and innovative product features. The concentration on low profile products in the past still negatively influenced the brand perception at present. Moreover, the shift in

⁵⁵ Positioning is viewed from the intended product position and country stereo typing. Stereo typing is how the consumer is 'biased' and 'colours' believe, which is causing a difference in perceived positioning.

product portfolio was happening at a different speed in Europe. This led to significant differences in brand-perception for Sharp.

For Pioneer some European positioning differences occurred as a result of the product customisation. However the customisation took place on such a small scale that the overall effect was not significant. Pioneer, like Kenwood, had more trouble dealing with the distribution channel differences in Europe. This clearly limited the sales opportunities for more advanced products both within countries as across countries. Both companies aimed to positioning products at certain channels that fitted the brand positioning. Specialist retailers were often interpreted as adding value to the product and were therefore preferred above other channels. Philips on the other hand did not experience positioning consistency problems in Europe. Channel consistency was being searched for by selling identical products via identical channels. A lower availability of channels limited the sales possibility for a particular product in a particular country. Philips preferred to accept this rather than selling similar products via different channels. In this way positioning confusion in Europe could be minimised and consumer expectations could be filled in a consistent method.

5.1.6 European competition

All four companies pointed out that they were only competing with multinational competitors. Consequently, the presence of multinational competitors called for global coordination. While Philips was concerned about the increase of competition in recent years on a global level, the Japanese companies only discussed this from a local perspective. Technological differentiation was becoming more difficult for all four players. This increased the focus on price competition significantly in most product segments. Pioneer and Kenwood aimed to escape the price competition. They partly succeeded based on the brand image, while Philips focussed on product features if possible. Sharp on the other hand had been focusing on price competition in the past years and now aimed to focus more on technological differences.

5.1.7 European marketing actions

As pointed out in the European strategy analysis, the companies operate within certain path of dependency. The number of possibilities are often based on the degree of centralisation that could be found within the firm in relation to marketing decisions. For each of the firms there was a low degree of product customisation, as most products were the result of global/European production based on product developments that were designed for global consumers. Pioneer was the only

case that showed some degree of product customisation, however, on a very limited scale. From this perspective it can be concluded that all cases were selling similar products in Europe. Differences only occurred as a result of product portfolio differences, indicating a high degree of product standardisation for all producers.

Moreover, the products sold were all sold under the same global name that was communicated through the same communication tools⁵⁶. This indicated an initial high level of promotion standardisation for all four cases. However, there were small differences to what extent the promotion was standardised. Philips and Pioneer used exactly the same tools and message in Europe to create brand consistency. No local promotion was allowed, and adjustments to the communication could only be made in terms of language. Sharp followed a similar approach, but allowed subsidiaries to add local advertisements to the existing global communication, indicating a lower degree of promotion consistency. Kenwood on the other hand did not have a global advertising programme and therefore fully depended on the campaigns set up on a local level, yet with global guidelines.

Significant differences in standardisation could be found in the pricing element. Philips could not avoid have small price differences in Europe as the result of local market competition. However, the multinational always aimed to minimise the price differences by controlling the European bandwidth. In this way extreme price differences were avoided. The opposite was true for Sharp. This company focussed with 70 percent of their portfolio on price competition, by selling below the market average. Although they have been trying to improve this situation, it could not be avoided that the price image limited the possibilities of portfolio upgrading in the Netherlands.

Kenwood and Pioneer aimed to avoid price competition as much as possible. For Kenwood this was because they were not capable of competing on price due to the limitations faced in the global sourcing opportunities in comparison to other players in the market. Pioneer tried to maintain a brand image in Europe and found it inappropriate to compete on price. Nevertheless, for some products the situation could not be avoided for both Kenwood as well as Pioneer. This resulted in significant price differences in Europe. For these two players the differences of distribution structure in Europe was creating a particular focus on price. Limited availability of specialist retailers forced these companies to sell via other channels as well. This often meant a fiercer competition with more difficulty to distinguish the product. Philips and Sharp could avoid

this situation to a certain extent as their portfolio was wider spread. From this point of view the distribution standardisation for Philips is high, while it was for Sharp slightly lower. This was the result of the bargaining power of the retailer, which was based on the market share of the company and in case of Sharp this was also based on the product quality and image. This limited the distribution opportunities for Sharp.

5.2 Cross Food case comparison of European positioning T°

5.2.1 European portfolio

The investigated food multinationals showed similarity in the orientation of the product portfolio in Europe. However, there was clear differentiation to what extent the product concept needed to be adapted to the local market. From this perspective, Nutricia and McCain sold similar products concepts and customisation was done in terms of content variation and product line extensions. The wide spread in the portfolio of Nestlé led to different degrees of customisation, which varied from almost no customisation for strategic, internationalised product concepts to local products sold under the Nestlé brand. This latter approach was also adopted by Hero, who produced and sold products on a local level using the Hero brand name. Differences in product portfolio were therefore the result of differences in market potential identification, the choice to make adjustments to meet local needs, and the requirements for product adjustments to meet local government demands.

5.2.2 European production: Network integration

The significant differences in product portfolio consistency and the degree of customisation applied to many products sold by the firms lowered the possibilities to use the same production facilities. On the contrary, to produce local products it was often found important that these products were produced on a local level. While this led to significant local cost advantages, it was also the result of the extent to which it was possible to make product adjustments afterwards. Therefore subsidiaries were almost always accompanied with at least one local production facility. However, this did not suggest that all products were produced on a local level. Nestlé aimed to produce internationalised concepts in as least facilities as possible, and therefore showed some degree of European production. The highest extent of global technology usage could be found at McCain who produced all European products at four different production countries spread across Europe to serve the Northern, Eastern and Southern part of Europe. These facilities

⁶ I.e. logo, colours, structure etc.

were capable of producing large scales of customised products. The production capacity was the most important limiting factor for Hero to use facilities abroad. While, in the case of Nutricia for some product standards a combination could be made which meant that concepts were produced at one facility and customised at a local facility. What we therefore could see in the European food industry is that the four cases to a different extent made use of Pan-European production.

5.2.3 European Sourcing and Benchmarking

The local production, the wide spread product portfolio and the high degree of product customisation often found in the food industry were only some of the limiting factors to benefit from global sourcing advantages. Local advantages such as speed of delivery, low transportation costs, and accurate production often outweighed the potential benefits of economies of scale and low labour costs. European sourcing benefits were therefore often searched in terms of production process advantages, by using similar techniques and expertise in multiple countries. Nevertheless, as has been pointed out in the European production section, the companies still manage to benefit from global sourcing advantages to a certain extent. This was particularly important for McCain, who based its market position on producing the highest quality at the lowest price by focussing on cost reductions as the result of combined production efforts. To a more limited degree this was also true for Nestlé who produced under the same circumstances. Nestlé could also benefit from its enormous investments it made in production facilities on both a global and local level, which enabled the firm to benefit from large scale production benefits on both levels. Nutricia's product portfolio allowed some European production which created cost reductions. For Hero none of these benefits could be gained on a European level. However, local production often took place in one facility which minimised the local costs to the highest possible extent. All four producers could benefit from cost reductions in comparison to local competitors.

5.2.4 Identification of a European consumer

In the food industry firms found it often complicated to group consumers of various European countries in a similar way. Clear limitation for doing so could be based on the complexity caused by significant differences in culture, which often was related to the food consumption habits. Despite the fact that the MNE succeeded to sell similar concepts in the European countries, it has previously been pointed out that there are significant differences of product consistency in Europe. Targeting similarities could therefore be defined as finding a consumer with a similar interest in Europe. This could be accounted for all investigated companies. As soon as the product concepts were comparable to a higher degree then the companies choose to sell these products in

a more consistent way. This was particularly the case at Nestlé, and to a lower extent at Nutricia. Conversely, Hero and McCain did not follow any segmentation guidelines, but consumer targeting similarities were more the result of product positioning aims. From this perspective it can be concluded that none of the four firms formulated a definition of a European consumer. The firms chose to follow a local product bound segmentation technique that significantly differed across countries and product groups.

5.2.5 European product positioning

Interestingly, the four companies were trying to sell their products in a consistent manner in Europe by aiming for a similar product positioning. Nevertheless there were different levels in what extent the companies expressed this European positioning. The most coordinated approaches could be found at Nestlé who offered several global concepts that were accompanied with clear guidelines how and where to sell the products in the subsidiaries country. Similar guidelines were setup for the local produced products; however, these were not as strict as for the global concepts. Positioning from this point of view aimed at consistency in terms of brand communication and product quality to associate Nestlé with a particular product standard. McCain setup similar guidelines to sell their products which were often relatively simple to adapt in a particular market structure due to the small number of A-brand competitors represented in this sector. This gave McCain a comfortable position which enabled the company to create a consistent positioning policy. Nutricia also positioned most of their products according to guidelines which were formulated by the PMO organisations of the company. Hero, by contrast, did not work according to guidelines. Instead the company had a brand perception aim that was being followed by the subsidiaries, based on their interpretation of this aim.

Limitations in the rate of success were caused for numerous reasons. In case of Nutricia this was particularly the result of local government laws and differences in distribution of medical and health related products in Europe. McCain's limitations in positioning consistency were mainly caused by the differences in product quality. The company was forced to customise products due to the constrained availability of raw materials. This often caused significant differences in taste, which led to a different consumer perception. Nestlé was experiencing a combination of many elements that limited the firm to position the products similarly, although none of the elements was particularly dominating. From the respondents point of view the most important limitation was the companies aim to fulfil local needs which was contradicting the European positioning viewpoint. The company chose to do so to overcome the cultural differences in the region and to

utilise the local opportunities. Hero on the other hand was limited due to the lack of European coordination to create a consistent positioning environment. The companies' success was primarily based on its local approach, and the company HQ made no significant steps that would lead to complete overhauls of its positioning policy.

5.2.6 European competition

The pressure for global coordination due to the presence of multinational players in this industry was often minimised by the studied firms. Although there was a clear awareness of this type of players, they were often only used as a marketing benchmark from a local perspective. This suggested that MNE competitors were not often treated differently than local competitors. However, all firms stressed the impact of MNE competitors on local market circumstances. These types of players were often capable of competing on a different level than the local competitors as they could afford the necessary investment of growth. In recent years this has led to an increasing number of substitutes. Nevertheless the firms claimed that they had a significant advantage to these and other market players based on distinctive quality and the long market presence.

5.2.7 European marketing actions

As discussed in the European strategy analysis the firms operated in different degrees of centralisations. McCain showed the most centralised approach, while Hero was operating relatively autonomously. Most important factors explaining the degree of centralisation were the spread of product portfolio, the possibility of European production, the degree of product customisation and the size of the firm. These factors clearly influenced the extent to which firms implemented a local or European marketing decision. All firms showed a high degree of product customisation and local product development. This indicated that the firms were either consumer driven, or there were limited possibilities to standardise the product due to other factors such as availability of raw materials and local government requirements. As a result of these factors some pan-European product customisation could be found at McCain, Nestlé and Nutricia.

More consistency could be found on a promotion level. Each of the four companies aimed for brand consistency in the European market. This showed by the usage of similar (global) promotion tools that were often accompanied with European guidelines to create consistency. While this was important for all four companies, McCain and Nestlé took significant steps to assure brand consistency while Nutricia and Hero subsidiaries could deal with this relatively autonomously. Limitations in promotion standardisation could be found as the result of language

carriers, the usage of local product names and differences in product portfolio, which could give a different association to the brand. Differences in product standardisation and local promotion implementation, as well as external differences in market structure and legislation led to significant price differences of the products in Europe. None of the firms made clear attempts to control these differences.

Similarities in usage of distribution channels could be found in terms of product positioning. The firms all strived for consistency, whereby the retailer should fit the brand name positioning. Selection of retailers was therefore often based on retailers that would prefer A-brands. The companies could often make a selection where to sell their products based on their status and bargaining power. Nutricia faced some restrictions due to significant differences of similar channels in Europe. The same limitation occurred for McCain, who needed extra in-store facilities to sell their (primary frozen) food products. Overall it can be concluded that the food products were sold via similar channels with the exception of some of the Nutricia products. The increasing internationalisation of retailers stimulated the distribution standardisation. Nevertheless all the companies aimed to avoid any bargaining power that could arise from the internationalisation by dealing with these retailers locally. McCain was the only company that welcomed the internationalisation of the retailers, as it opened more opportunities to standardise the distribution approach, and it positively contributed to the company goals because of the limited availability of frozen food specialists.

5.3 European strategy positioning matrix T°

The starting point behind the European strategy positioning concepts is the notion of the investigated companies how they see the European market. As this perception can be viewed from the individual perspective, we aimed to combine this with organisational processes by giving an insight in the extent to which the European strategy is centrally planned and implemented. Main indicators that were used were based on the (internal) organisational structure and the market structure. European strategy is therefore the activity by which a similar strategy is being used in Europe. Based on the identification of the European strategy we secondly want to point out the extent to which this strategy is translated into European marketing actions. This dimension reveals the degree to which the processes are implemented and decoded into strategic marketing programmes, which shows what tools were standardised and which were not.

5.3.1 Positioning technique

Viewed in a multidimensional space, the European strategy of the firm can be graphically represented by a point defined by its constructs⁵⁷ scores. These scores are being used to position the firms in an assessed manner to point out what firms in the industry is strategising in a more European way, indicating a more European orientation than its investigated competitor. In this context, a Likert type of scale from 1 to 5⁵⁸ is being used to signify the firms' position in relation to a particular construct. No particular weight is given to the constructs as each construct is interpreted as equally important to point out the European strategy definition. The score will indicate the firm's position in relation to the construct, taken into account the market context. The score will also position the firms against each other. Finally, the score of each individual construct is totalled in order to divide these by the total number of constructs defined. The outcome will be an average number which will indicate where on the X-axis the firm is positioned.

The same approach is being used to express the extent to which the European strategy is translated into marketing actions. The construct scores are a direct result of the marketing actions analysis. These scores are being used as an indicator in order to position the firms against each other in relation to a particular construct. Again these scores are being totalled and averaged by the total number of marketing actions constructs. This will indicate the Y-axis coordinates.

5.3.2 Positioning coordinates of T° positioning

The following table provides a summation of the constructs identified and discussed in the European strategy analysis. The constructs are scored based on the positioning technique and are used as an indicator where the firm is positioned on the X-axis.

⁵⁷ The defined constructs are the result of the within case analysis

⁵⁸ 1 is referring to the lowest score indicating the lowest European strategy, 5 indicates the highest score.

Table 5-1: Positioning coordinates X-axis of T° positioning

Consumer Electronics cases					Food cases			
Construct	Philips	Sharp	Pioneer	Kenwood	Nutricia	Hero	McCain	Nestlé
European Portfolio similarity	4	3	4	4	2	1	3	2
Network integration	5	3	4	2	2	1	4	3
Global Sourcing and benchmarking	5	4	4	3	2	1	3	2
European Consumer identification	5	3	2	2	2	1	1	2
European product positioning	4	2	3	3	2	2	3	3
European competition	4	3	3	3	1	1	1	1
Total	27	18	20	17	11	7	15	13
Average	4.5	3.0	3.3	2.8	1.8	1.2	2.5	2.2

The following table provides a summation of the constructs identified and discussed in the marketing actions analysis. The constructs are scored based on the positioning technique and are used as an indicator where the firm is positioned on the Y-axis.

Table 5-2: Positioning coordinates Y-axis of T° positioning

Consumer Electronics cases					Food cases			
Construct	Philips	Sharp	Pioneer	Kenwood	Nutricia	Hero	McCain	Nestlé
Degree of marketing implementation control	5	3	4	2	2	1	3	3
Degree of European product standardisation	4	4	4	4	2	1	2	2
Degree of European promotion standardisation	4	3	4	2	2	2	3	3
Degree of European price standardisation	4	2	3	3	1	1	1	1
Degree of European distribution standardisation	5	4	3	3	2	4	3	4
Total	22	16	18	14	9	9	12	13
Average	4.4	3.2	3.6	2.8	1.8	1.8	2.4	2.6

5.3.3 T° matrix

The following figure gives a graphic overview how the firms are positioned against each other;



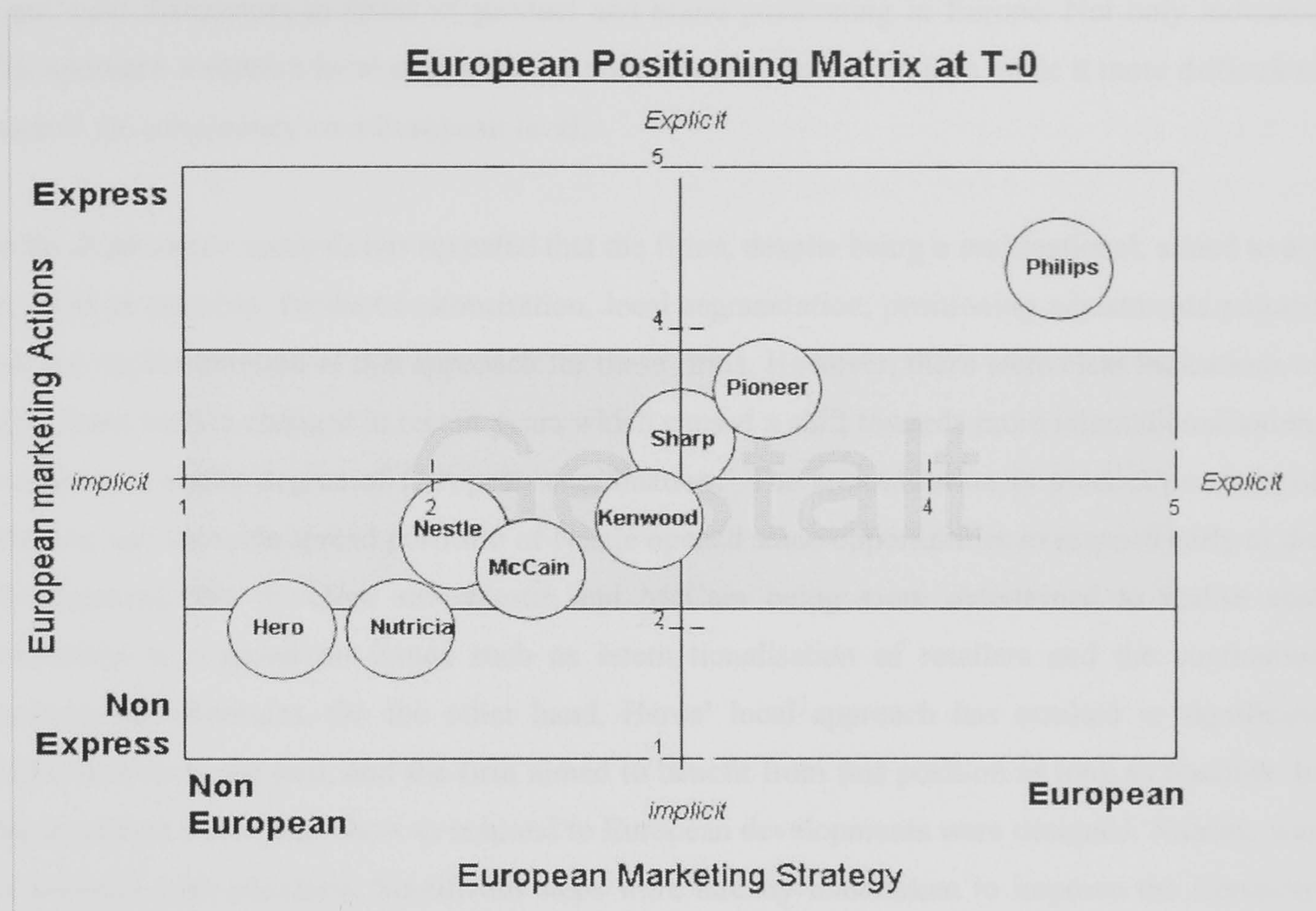


Figure 5.1: T⁰ Matrix

The purpose of this matrix is to set out the cognition/action relationship between the European strategic viewpoints (i.e. planning) and European marketing actions (i.e. implementation). Despite that both factors are effectively measuring the same effect this measurement enables us to point out to what extent the two factors of thinking and acting are positively co-related and indeed confirm this linearity. As such, the positioning matrix confirmed the distinction between the global CE products and the regional food products as defined beforehand in the case study design. In the CE industry, the most advantageous position is taken by Philips. This yields the highest rating among the targeted firms. This position is mainly the outcome of the centralised definition and planning of the European strategy. In addition, the firm clearly outperformed the Japanese firms with their European implementation and control. The feasibility of a European strategy and implementation of the Japanese firms seemed to be very depended upon the production and marketing capabilities of the firm. The Japanese firms were able to manufacture the kind of product that could technologically out-compete the Philips products, however, these products were not always available in the European market. Even if they were, the Japanese firms often chose to sell these products to the local consumer, strongly taking into account the local market circumstances including consumer needs, pricing and distribution availability, which caused

significant differences in terms of product and brand positioning in Europe. Not only indicated this approach a relative local expression of the marketing actions, it also made it more difficult to control the consistency on a European level.

In the food sector, analysis has revealed that the firms, despite being a multinational, aimed to act as local as possible. Product customisation, local segmentation, positioning adjustments pointed out the implementation of this approach for these firms. However, there were clear indications of significant market changes in recent years which caused a shift towards more internationalisation, enquiring a higher degree of European coordination. The concentration in product portfolio of McCain and the wide spread portfolio of Nestlé opened some opportunities to respond early to the development. We therefore saw Nestlé and McCain being more determined to realise cost reductions to respond on issues such as internationalisation of retailers and the continuous increase of substitutes. On the other hand, Heros' local approach has resulted in significant achievements in the past, and the firm aimed to benefit from this position as long as possible. In the meantime initial steps how to respond to European developments were designed. Nutricia was in between both positions. Significant steps were already undertaken to improve the European position of the firm, however time was needed for it to develop.

5.4 Sensemaking direction dependency analysis

As pointed out in the literature review chapter, sensemaking is an interpretative process in which people assign meaning to ongoing occurrences (e.g. Gioia & Chittipeddi, 1991; Weick, 1995). As such, sensemaking is a necessary precursor to all purpose activities such as planning actions, making decisions and so forth. What we will analyse in this section is sensemaking under the condition of equivocality (e.g. Kiesler & Sproull, 1982; Smircich, 1983). Equivocality is defined as existing when two or more prospective meanings appear clearly applicable and equally valid (Weick, 1979). Equivocality usually serves as a sensemaking stimulant that triggers a search for evidence favouring one prospective meaning over others. We are therefore looking for processes that stimulate the sensemaking of the manager to potentially treat the Euro as a technical issue, a strategic issue, or a combination of these two. This has previously been defined as the path of dependency that guides the actors in terms of European thinking which is based around the issue of coordination on a European level.

We will analyse the extent to which European coordination takes place by looking for similarities and differences in terms of organisational structure⁵⁹ and the configuration of corporate decision making processes⁶⁰. Subsequently we are interested in how these issues influenced the integration of the European network. This will help us to make reasonable interpretations and judgements that can be linked back to the Euro. Judgement will be based on their direct domain of inquiry, which indicates different levels of importance. We therefore distinguish between first and second order equivocality that can be linked directly or indirectly to sensemaking in relation to the Euro. In other words, first order processes can directly be linked to the European thinking of the company, while second order processes might have a longer chain which can not directly be linked to the Euro but they still are of significant importance on the European interpretation of the firm. After this process is defined we will make a comparison to what extent the path of dependency is followed by the managers by comparing the deliberate strategy (planned strategy including the effort made to analyse the environment) with the identified path. This comparison enables us to position the firms in the Euro sensemaking matrix using the same construct positioning technique as used in the T° definition.

5.4.1 European Coordination Elements: Organisational structure

Among the most important decision areas that can influence the design⁶¹ of organisations are;

- Orientation,
- Height,
- Centralisation,
- Formalisation and
- Coordination

Taken these points into account we are going to examine the organisational structure by comparing the observed company structures with the most frequently found forms of organisational structure. The importance of doing so is based on the notion often expressed in the organisational behaviour literature (e.g. Chandler, 1962) that the manager uses the organisational

⁵⁹ Primary the setup and characteristics of the European network

⁶⁰ I.e. level of centralisation, European coordination, formalisation and so fort.

⁶¹ Orientation is designed around the functional activities which indicates different structural arrangements; Height refers to the different structural frameworks which can differ from small to tall, depending on the number of organisational layers; Centralisation refers to the degree in which an operation operates in a centralised manner; Formalisation relates to the notion of formality and degree of prescription in terms of written rules, procedures, instructions and communications; Coordination is the mechanism for ensuring the integration between the sub-units.

design process as a fundamental tool for implementing and communicating the strategic direction of the firm. Many organisations are designed as hierarchies, with considerable variation in the number of levels and in the set of activities grouped together. The two main groupings⁶² are “divisional” and “functional” (Chandler, 1962). Other organisations employ a matrix structure in which each lower level reports to two or more superiors. It may be difficult to classify specific multinational firms into only one of the categories; however, indications of the organisational structure will help us to understand in more detail to what extent direction is given to the individual managers’ strategic interpretation.

5.4.1.1 Orientation and height

In the consumer electronic industry it is manifest that all four companies worked with a comparable divisional structure that was initially based on a product group definition. The number of divisions could be related to the product portfolio of the company, which in all cases could be classified as having low or medium product diversity. For Philips and Sharp this implied that the CE was a specific division along side the other divisions indicating different business orientations of the company. At Philips CE eight product divisions were identified. A much less complex product group structure was found at Pioneer, Kenwood, and Sharp CE with three product divisions each. For all four cases it could be accounted that the product divisions were directly operating with world regional HQ, including a EHQ. However, there were significant differences in terms of functionality and responsibility of the four EHQ. The functional activities of Kenwood Europe were restricted to specific region responsibility in terms of marketing and management. There were no direct functional activities between the EHQ and other European subsidiaries. A similar situation could be found at Sharp with the clear divergence that some European functions were developed. The functional aspects of Pioneer Europe were much clearer defined. Marketing and Management decisions were clearly controlled on a European level, however, there was still space for local interpretation and definition. The opposite was true for the European functional activities of Philips EHQ. These were well defined on a European level which was clearly indicated by the product groups not only existing on a global level but also on a European level. Each product group took care of European functions such as marketing, management, sales, logistics and so fort, whereby the function of subsidiaries could be described as local executers.

⁶² In a divisional hierarchy all activities are pertaining to a single product, group of products are grouped together in a division. In a functional hierarchy activities pertaining to a particular function are organised into departments. Matrix structure can combine these two structures

In the food industry a more diversified structural approach was found. This diversity was mainly the result of significant differences in product portfolio availability in Europe. Despite the fact that a product group structure could be found in the food firms there was diversity at what level a product group approach was introduced. At Nestlé and Nutricia there were PMOs both on a European level as well as on a regional level. This suggested that each product was related to a specific product group that was managed and controlled to a certain extent on a European level. Differences of control depended on the degree of European availability. Hero also used a product group approach, however, these product groups differed significantly in Europe, which led to a localised definition with no European management or control. McCain, in contrast, did not use a product group approach but instead concentrated on production facilities. Each country producing McCain products was taking care of as many other countries as possible given the production capacity. On a local subsidiary level no product group distinction was made which indicated overall functional activities on a local level. Hero, Nestlé and Nutricia related the functional activities to each product group and linked these activities matrix wise across the product groups to ensure a consistent approach.

It seems safe to say that highly diversified firms such as the food industry are less likely to handle their foreign operations through a world wide functional structure. It cannot be said, however, that low diversified firms are apt to handle their foreign operations through a world wide structure, although the outcome of the structure comparison showed that CE firms are more likely to use such an approach. One of the explainable variables could be that CE firms largely deal with more homogeneous products that do not have to be altered substantially from one country to another. Their key strategic need therefore would very likely concentrate on coordination among functions (e.g. productions, sales, marketing, and so fort) on a global or regional level. As a result we saw more significant differences in structural frameworks in the food industry than in the CE industry. Likewise the CE firms, Nestlé and Nutricia used an international division structure that was operating alongside the domestic structure that was organised by product. The significant difference with CE firms is that functional activities were not often internationalised in this industry. What it did indicate was that an international division structure was adopted by companies that depended on product divisions. Hero and McCain, on the other hand, did not turn over resources to product divisions, but rather centralised these to a considerable extent at a corporate level in the case of McCain or decentralised these in the case of Hero. For this reason, McCain and Hero could be described as a relative flat structure, while the other firms are taller in their structure. The structures of Philips, Sharp and Nestlé were significantly taller than the other

firms. This was mainly due to the relative wide spread of the product portfolio and the total size of the company.

5.4.2 Configuration of corporate decision making processes

5.4.2.1 Centralisation, formalisation and coordination

Following Edstrom and Galbraith (Edstrom & Galbraith, 1977), who argued for the importance of normative integration is another primary structural element in multinational organisations, we believe that centralisation, formalisation, and coordination analysed singly and together, constitute a comprehensive characterisation of the configuration of HQ-subsidary relations. As pointed out in the literature review, centralisation has been defined as the division of decision making authority between HQ and subsidiaries. In other words what is the level at which a decision need to be approved before being implemented. The cases can be related to two different centralisation perspectives; production centralisation and non-production centralisation.

From a production perspective, there were several indicators that accounted towards the degree of production centralisation. The first indicator is the number of factories used and the location of these factories. In this respect a clear distinction between both industries could be defined. Relative few factories were used by the CE firms, while the food subsidiaries were often accompanied with a local production facility, with the exception of McCain who had production facilities that were producing for regions rather than countries indicating a high degree of production centralisation. In the CE industry the companies were faced with price competition which pressured the firms to look for cost reductions. CE firms, therefore, were aiming for production scale benefits. This was indicated by the use of large factories by Philips in Eastern Europe, Asian factories by Kenwood and European and Asian production by Pioneer and Sharp. A second indicator was the complexity of the product portfolio which could be divided into product diversity and product modifications. First from a modification perspective in the CE industry similar adjustment were made by the firms to meet the local technical requirements of the host countries. However, there were significant differences where and when these adjustments were made, indicating a different level of centralisation. The highest degree of centralisation was found at Philips, Kenwood and Sharp who produced in as least factories possible to maximise the scale benefits. Pioneer chose to modify some products to a higher extent to meet local requirements. This indicated a lower degree of production centralisation.

In the food industry, by contrast, a much higher level of internal complexity in terms of product modification was found. All four food cases posited the need to alter products to better reflect local environmental or cultural differences, which led to a higher degree of decentralisation of production. The highest degree of centralisation was found at McCain who produced products for regions rather than countries, while Nestle and Nutricia produced some products on a European scale that needed a relative low degree of modification. However, most products sold by Nestle, Nutricia and particularly Hero were modified to a high extent. In addition, this made the food portfolio much more complex in terms of product diversity. This diversity was also linked to the third indicator, the response to market environmental changes in terms of products and competition. A local response to local competition with product differentiation was apt to force the subsidiaries into different market segments, with different buyers, distribution system, and so forth. This approach was mostly chosen by Hero, and to a smaller extent by the other food companies.

The relative high degree of centralisation of the CE required an additional coordination between the subsidiaries and the HQ on a non production level. The same accounted for the food companies, who despite the localised approach for many products, all strived for image consistency on a European level that indicated a degree of European coordination. The tendency to manage non-production activities on a European level by integrating European or global strategies more closely into the local economies showed different levels of success across industries and companies. Part of its success rate can be explained by taking a closer look at the role of the subsidiary in the multinational structure. This approach revealed a clear distinction between the CE firms and the food firms. CE firms tended to work closer with the HQ to develop and implement strategy. The subsidiaries often had worldwide support for a product line, however none of them had an unconstrained product scope and there were significant differences in the value added scope of the subsidiary, indicating different levels of decentralised centralisation. The functional scope of the Japanese subsidiaries in Europe could be closely related to the local implementer strategy as described by Bartlett and Ghoshal (Bartlett & Ghoshal, 1986). This implied that some value activities were integrated globally, while the subsidiaries had local autonomy to implement these. This approach gave a certain direction to the functional activities of the Japanese firms, whilst they were not totally restricted in how to put these activities into practice. Philips subsidiaries, on the other hand, were significantly restricted due to the clearly formulated global guidelines that needed to be followed. These subsidiaries could therefore be

defined as world mandates (Roth & Morrison, 1992) that implement the strategy developed on a higher level. This specified the high level of coordination centralisation at this firm.

The food firms tended to be more specialised contributors (Roth & Morrison, 1992) to the organisational structure. This indicated that the firms had considerable expertise in certain functions or activities, however differences occurred to what extent these activities were coordinated with the activities of other subsidiaries. The extent of coordination often depended upon the specialisation of the firm. This was in this particular industry always a combination of product and market specialisation. The Hero subsidiary tended to depend more on a high level of product expertise that pointed out specific specialised capabilities, whilst, the opposite was true for McCain who concentrated on specific European market regions with clear product coordination on a central level. Nutricia and particularly Nestlé had subsidiaries that were experts of implementing the functional activities on a local level. This expertise was combined with local product specialisation, and European product development that indicated a higher level of coordination centralisation going on in these two firms.

Some of the most salient conflicts over centralisation between HQ and subsidiaries were the result of host market circumstances. Several aspects interfered with the centralisation process, of which the host governments' demands, local distribution differences, and cultural differences were among the most significant issues. Particularly the first two issues played a significant role in the CE industry. Centralisation of production was reconsidered by the Japanese firms as a result of extra costs that needed to be paid on a local level for additional taxes⁶³. The role of the local government in the food industry concentrated more on product technical aspects such as contents. In many cases this resulted in significant product adjustments or lower internationalisation potential for food products. The four food companies all faced these problems while the extent to which this happened was product dependent and therefore difficult to generalise. In addition, local adjustments based on different taste, expectations or habits were often made to products in the food industry as a result of cultural differences. Whilst technical adjustments needed to be made for some CE products as well, this was not mentioned of significant importance, due to the similarity of industry production and therefore the impact on an industry level rather than a firm level. Cultural differences on the other hand were not dealt with as a threat on the sales potential of identical CE products. Local distribution differences both played an important role in the food and the CE industry. These differences led to a wide spread of channel usage of the food cases

that limited the consistency on a European level. This was of even more significant importance in the CE industry where there was a clear distinction between large retailers and specialised retailers. This second group of retailers could add value to the product and was therefore often used to sell more sophisticated technical products. The strategy of Pioneer and Kenwood depended to a certain extent on these retailers. Distribution differences in Europe therefore seriously influenced the functional activities of these two firms.

5.4.3 European network integration level

As the previous analysis revealed, our findings suggested that multinational interactions were characterised by degrees of localisation, based on the characteristics of the subsidiary and its host country influenced by the degree of coordination of the HQ. This coordination was formalised across the firms to a different extent, which indicated that there was a different level of European network integration. It was clear that one could not assume that the positions taken and the methods used in each country were equally prudent. However, what the analysis revealed was that some multinationals were more successful in achieving European centralisation than others. This section therefore continues the debate by focussing on the objectives of the network, based on the previously discussed roles of the subsidiaries as well as the extent to which knowledge was shared within the multinational. What the European integration level therefore aims to find out is if the more integrated a subsidiary was with its affiliates in a strategic sense, if this integration also was greater in a political sense.

What the role of the subsidiaries indicated was that knowledge integration across CE firms was of more significant importance than it was for the food firms. This argument was also confirmed with the organisational structures found in these companies. From this perspective it was particularly argued by Philips that making information available to all departments was vital in order to ensure project success. In addition, information sharing had an influence on the process of centralisation. One key issue behind information sharing is how subsidiaries get to know about the progress of the programme. In the case study firms, monthly reports, appraisal systems and meetings were set up to inform the subsidiaries. All cases used the Intranet as a vehicle to illustrate the programme's development and to emphasise the progress that had been made. This was particularly apparent in the Philips and the Nestlé case, where the Intranet was used to inform and interact with subsidiaries located in worldwide branches.

⁶³ i.e. import tax

However, evidence from the food and the CE cases suggested that the use of the Intranet did not always achieve the expected outcome, because the use of the Intranet was not a common practice in either organisation, especially among senior managers. Instead, face-to-face interactions [either formal or informal], e-mails and phone calls were preferred. What this indicated was that the communication rate and communication intensity played a more significant role to achieve a higher degree of centralisation. The case-study firms adopted different approaches to sharing programme-related information. In contrast to the centralised approach observed in the Philips case, the approach employed in the Japanese CE cases and the food cases was comparatively decentralised, particularly during the implementation stage. Main argument of doing so was the level of autonomy given to these cases to implement functional activities on a local level and the extent to which the guidelines setup at a higher level were formalised and coordinated by a European team. Philips already operated on this level, while Pioneer started this process some years ago and clearly made improvements since. The same situation was apparent at Sharp with the clear notion that the process started recently. No significant steps in that direction were made by Kenwood. Based on these developments we found in the CE industry that there was an increasing degree of knowledge integration which was translated in more communication on a European and global level. The highest degree of strategic fit was found at Philips followed by Pioneer then Sharp and finally Kenwood. Strategic fit was significantly more complicated to achieve in the food industry.

Nutricia and Nestlé added several levels of communication sources in the organisational structure to increase the effect of network integration. Nestlé succeeded with some brands and products to centralise the policy. In this respect we found a clear formalised approach related to the functional activities of these products. Communication from this perspective was one-sided with straightforward EHQ guidance. In relation to these products the subsidiary fulfilled a world mandate role. For Nutricia the guidance was not as strict as suggested at Nestlé, however, EHQ aimed to control the implementation process for these products that was managed through European meetings and intranet progress measurement. In contrast, McCain was more integrated due to the production focus of the company. This approach was also revealed by the monthly European meetings that took place to improve European growth goals. Even though, growth was not necessarily achieved through functional centralisation. On the contrary, McCain subsidiaries were autonomous how to realise these growth strategies. The lowest network integration was found at Hero who operated with stand alone organisations. European communication was rare, and subsidiaries did not search for communication increase.

5.5 Definition of the path of dependency level

As argued in the literature review, a number of theorists have observed that the control of the individual is carried out in a framework of organisational control that exists on several connected levels. What this suggests for multinational corporations is that integration is clearly more than the sum of relationships between individuals at adjoining levels in the hierarchy. What we would like to stress with the definition of the path of dependency is that control and coordination of specific individuals are part of the integration system, but patterns of corporate European thinking that exist will persist despite changing personal relationships and will therefore influence the interpretation of the manager by guiding her thoughts in a certain direction. By conceptualising integration at this level, the sensemaking process of the manager can be more clearly understood. Hence, the path of dependency indicates what the most likely direction of the manager will be when interpreting the Euro.

The following table will provide a summary of the previous discussed organisational structures and processes stimulating managers to interpret the Euro more strategically or more technically. A distinction is being made between processes and structures that can directly be linked to the European notion of the firm, and processes and structures that can be indirectly linked to the European notion of the firm.

In this context, a Likert type of scale from 1 to 10 is being used to signify the firms' position in relation to a particular construct. Both first and second order effects are measured in the same scale. We have chosen to do so because first order effects can be directly linked in relation to the European strategy definition, however it does not necessarily suggest there is a stronger impact as a result of this effect. In other words, first and second order only acknowledges that there is a different length in chains of effect. The score will indicate the firms' position in relation to the construct, taken into account the market context. The score will also position the firms against each other. Finally, the score of the individual construct is totalled so these can be compared with the maximum total construct score. The outcome will indicate the extent to which the firm is more technically or more strategically dependent.

Table 5-3: Positioning coordinates of path of dependency

	Consumer Electronics cases				Food cases			
Construct	Philips	Sharp	Pioneer	Kenwood	Nutricia	Hero	McCain	Nestlé
Organisational structure								
European Functional activities	9	7	5	5	5	1	5	1
European HQ responsibilities ⁶⁴	9	7	8	4	4	1	3	5
Complexity organisation structure ⁶⁵	8	7	5	5	4	2	2	4
Production Centralisation								
Usage large scale facilities ⁶⁶	10	5	5	10	1	1	5	3
European facilities vs. local production	9	7	7	1	2	1	3	2
Portfolio Complexity ⁶⁷	6	7	8	9	3	2	4	1
Product modifications ⁶⁸	8	7	5	7	2	1	3	2
Coordination and formalisation								
Role subsidiary ⁶⁹	9	5	5	5	3	1	2	3
European Formalisation	9	6	7	4	4	3	3	5
Local Responsiveness ⁷⁰	7	6	6	5	3	1	4	3
Level of Network Integration								
European communication sources	9	8	8	6	6	5	6	7
Level subsidiary information sharing	5	3	3	3	2	2	2	3
Frequent European meetings ⁷¹	8	5	5	2	5	2	5	4
Total score	106	80	77	66	44	23	47	43
Average	8.2	6.2	5.9	5.1	3.4	1.8	3.6	3.3

The firms are positioned based on the extent to which the firm as a whole revealed European structures or European processes. It therefore needs to be stressed that there might be significant differences when this analysis is conducted on a product level, as this table takes both internationalised as well as localised product concepts into account. It aims to show more clearly what historical steps of Europeanisation are taken by the firm to respond to European integration that legitimate the action the organisation want to take in the future to respond on European developments like the Euro. The path of dependency definition as defined in the above table highlights the main findings of the European notion analysis. It reveals that most CE and food firms are clustered in a small region of dependency. Based on the outcome there is a significant

⁶⁴ Responsibility for European tasks, the extent to which the EHQ pulls the European programme together, indicating European programmes.
⁶⁵ More complexity with more layers indicates more control on product level and on a functional level
⁶⁶ The outcome is the existence of large production facilities indicating a higher degree of production centralisation (and consistency)
⁶⁷ The more complex the portfolio the lower the degree of centralisation, the lower the score
⁶⁸ Modification level indicates where and when the adjustments were made. Lowest score is local production, highest score is European modifications at the same moment.
⁶⁹ World mandates indicate a high degree of centralisation, local implementers a lower degree, and specialist contributors the lowest degree. Differences in scores indicate the existence of multiple roles
⁷⁰ The highest score indicates a low degree of local responsiveness, a lower score indicates a high degree of local responsiveness
⁷¹ Score indicates the frequency

distinctive behaviour between the food and the CE industry which is most clearly illustrated by Philips and Hero. The most advantageous position is taken by Philips. This result is mainly the outcome of the centralised definition of European constructs. The opposite is true for Hero, who is acting as a local expert and therefore clearly focuses on the local market. European market constructs either do not play an important role in the firm or are actively avoided by differentiating in as many levels in the firm as possible.

The following figure will position the firms on a path of dependency dimensions which will show to what extent the firm is likely to treat the Euro as either a technical issue or a strategic issue.

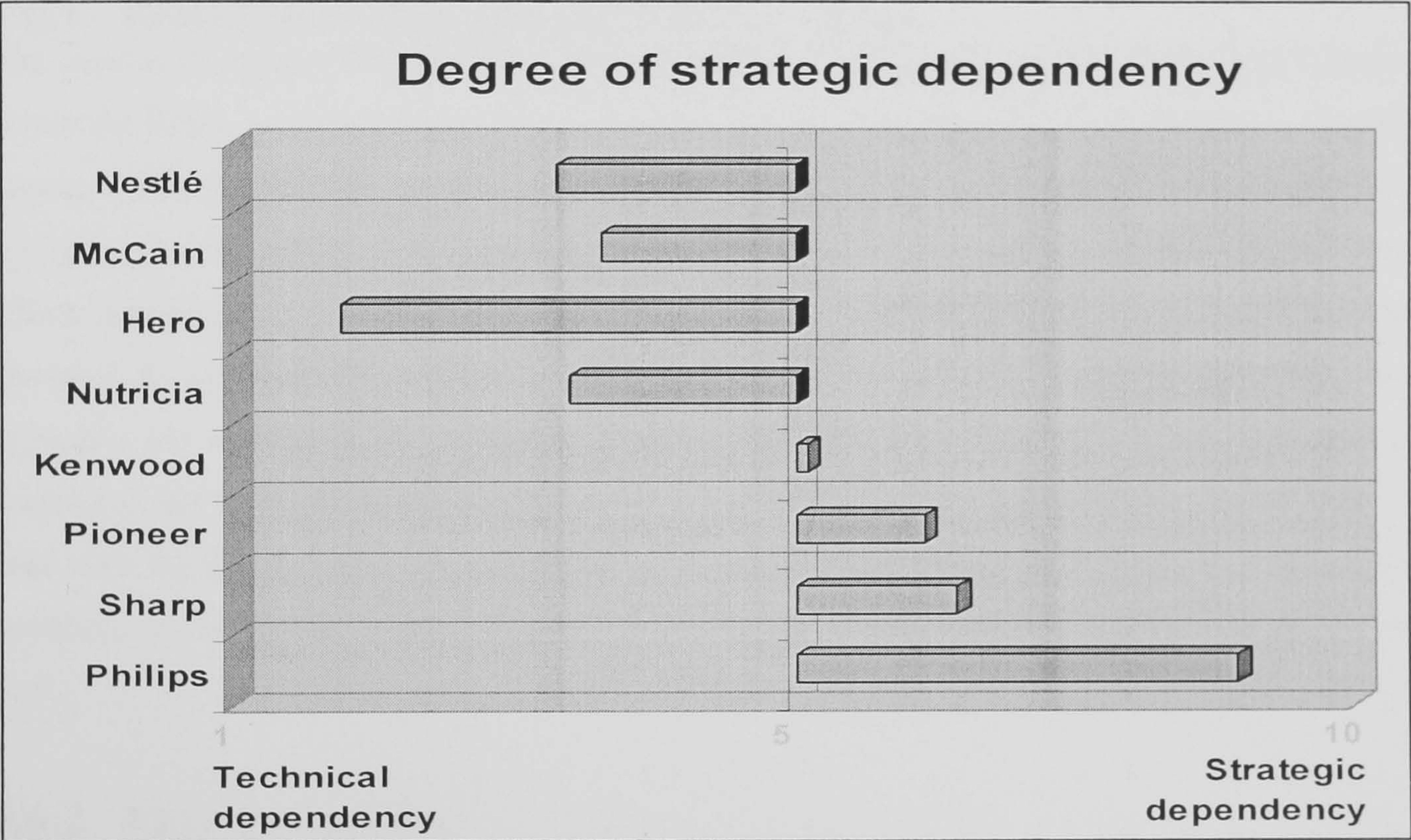


Figure 5.2: Path dependency towards the Euro

The identified path of dependency will serve as evidence to find out the extent to which individuals reveal sensemaking taking place on a higher level. In other words we will use the above indication and the organisational structure and process analysis to measure the significance of the suggestions made by the individuals. The following section will analyse the deliberate Euro strategy of the cases.

5.6 Interpretation and development of the intended Euro strategy

This section examines the intended strategy conducted by each organisation. The section comprises two parts; within case narratives to outline the contextual situation in order to

concentrate on the second part which is the analysis of the resulting contextual strategic alternatives. First a within case analysis will reveal what steps the firms have undertaken to understand the potential impact of the Euro. From these narratives, three distinctive strategic options [levels of commitment] of managerial interpretation are distinguished, each of which is based on key issues of importance as derived from the managers impact understanding. These alternatives will be compared with the path of dependency definitions as found in the previous part. This comparison enables us to position the firms in the Euro sensemaking matrix using the same construct positioning technique as used in the T° definition.

5.6.1 Response to market environment change

The essence to what extent the Euro is being faced as a strategic problem differed significantly across the firms. As we have seen in the previous section, this can partly be explained by industry structural differences, firm positioning, market structures and so fort. What we are interested in at this stage is what efforts were being made to understand the Euro before its introduction. These efforts could either be the result of steps undertaken on a higher level or on the case level. We will therefore firstly study the notion⁷² of the environmental change as a result of the Euro. And secondly, we will adopt the dynamic capability perspective⁷³, which will reveal what various functional and personal expertise were being pulled together to make strategic choices how to deal with the Euro. This will also outline the firm characteristics and capacities⁷⁴ that either positively or negatively influenced the efforts made to understand the potential impact of the Euro.

5.6.2 Euro Perceptions

Consistent with the literature on the expected impact of the Euro (e.g. Verdin & Van Heck, 1999), most CE and Food managers considered the Euro mainly as a technical and operational issue at the primary stage of the Euro planning development, and devoted their attention and effort to these aspects, rather than strategic implications. While one

⁷² What is important about these changes is how individual managers perceive them. How do they see the nature of the 'new' environment in competitive market terms? Indeed it is unlikely that everybody in the same organisation would give the same answers. There are ways in which different people cognitively construct views about the world they are operating in. To some extent the managers are able to transient those perspectives. Sometimes the transaction is more through action and through cognitive discourse. The notion therefore refers to the combined managers views.

⁷³ The dynamic capability perspective is defined in the literature review as the firms ability to integrate, build, and reconfigure internal and external competences to address rapidly to changing environments (Teece et al., 1997)

⁷⁴ Existing knowledge, available resources, usage of resources, and so fort.

might find this surprising, it opened up two different managerial interpretations that could be further examined. On the one hand, the Euro was interpreted as not necessarily as overwhelming as some would expect, on the other hand the implications might not have been as obvious or general as simplistic slogans seemed to imply for those managers. What this indicated was the link between the analysability of the environment and the orientation of the manager. Those managers that did not see strategic implications for the Euro also did not view the Euro as a positive business opportunity. However, most managers used the introduction of the Euro as an opportunity to rethink their pricing strategy. The studied cases did this in various ways. While, Philips was focussing on European consistency and Euro-challenges, the non-European cases and the Food cases tended to combine this rethinking of pricing strategies with the technical ‘obligation’ to changeover to the Euro. The following table provides more detailed information about the expected practical implication of the Euro;

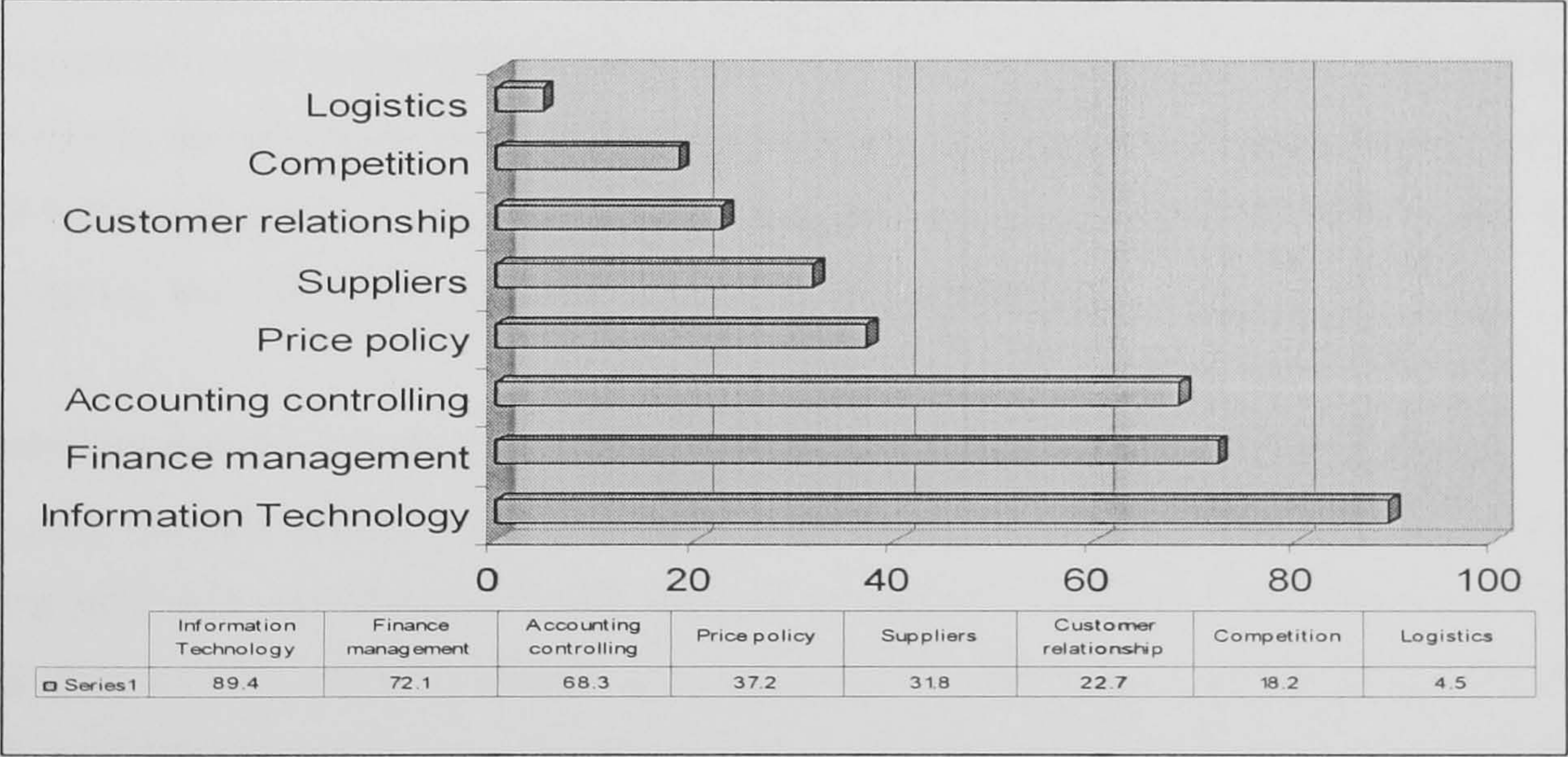


Figure 5.3: Practical impact expectations

5.6.3 Intrusiveness of the Euro

There are several issues that gave an indication to what extent the environment was actively searched to deal with the potential impact of the Euro. The first indicator is the structural steps undertaken to deal with the Euro (process structure). A second indicator is the time frame used to prepare for the Euro (process intensity). A third indicator is the implementation timetable used (process speed and accuracy). A forth indicator is the major marketing challenges that were identified (Stacey, 1995).

5.6.3.1 Euro Project teams

Structural processes in relation to the Euro influenced several departments within the firm. The most obvious Euro internal impact relationship identified by all firms was related to IT and to financial control issues. From a marketing perspective concentration of Euro project control focussed on customer relationship management and pricing issues. The degree of priority and importance given to the Euro could therefore be based on the level of commitment of each department. This led to different roles and responsibilities of the various Euro groups in the project organisations across the firms. From this perspective there was clearly a significant difference in size and complexity of the various Euro teams found in each firm. The most complex Euro project team was found at Philips, who established the ESCP, attended by a selected number of business representatives. This group was accompanied by national sub-working groups in every EMU member country, with a separate group for Finance and Accounting in order to deal with the first technical problems. At a later stage the ESCP was transformed into a large Steering Committee with about 40 senior managers, empowered to take corporate decisions. Finally, one project director per product group was appointed, and sub-working groups were established in the product divisions. In total more than 400 people were involved with the implementation process of the Euro on a corporate level, who in this way aimed to take full responsibility of the introduction of the Euro. With this project team Philips was the only company that fully dealt with the Euro on a corporate level.

Corporate support on a technical implementation level could also be found at Sharp, Pioneer, Nestlé and Nutricia where the HQ setup a Euro management team that was responsible for ensuring sufficient commitment for the Euro on a subsidiary level, and providing guidance and tools to deal with IT related problems. This approach was the result of the sophisticated intranet and IT facilities at these four companies which were integrated on a high degree and technical changeover therefore needed to be done in a more centralised way. For Sharp this meant that IT changeover should be done on the same moment, while for Pioneer, Nestlé and Nutricia the changeover moment was more flexible. Furthermore, all the cases except of Philips and Nutricia dealt with additional Euro changeover issues in a decentralised manner. With local Euro project groups, each subsidiary had their own responsibility for the day to day management and control of the Euro project. This project teams were generally formulated with two or three subsidiary managers with a financial and accounting background. Company departments such as marketing were often not that closely related to the Euro project team, which indicated lower commitment at this level. While for the food cases this low level of marketing commitment was primary due to

the low expectations of potential impact of the Euro in this industry, the Japanese CE firms stressed significant more impact of the Euro on a competitive pricing level. Although expectations in this direction were mentioned, it was evident that none of the Japanese firms took significant steps to face the potential impact. On the contrary, the Japanese firms preferred to wait and see what was going to happen.

5.6.3.2 Euro timelines and timetables

As a result of the Euro commitment we could break the task into two distinct projects, each with crucial Euro adaptation dates. The first project included the technical implementation of the Euro, whereby the companies were guided by the official Euro time table, with a transitional period of three years⁷⁵. During this period the rule was that there should be ‘no compulsion-no prohibition’ on use of the Euro. Most crucial official date was therefore 1 January 2002 as only Euro based scriptural transactions could take place from that date onwards. The second project was dealing more with the strategic relevance of the Euro based on the interpretation of the managers. Implementations from this perspective involved Euro adaptation dates dealing with issues such as customer satisfaction, pricing strategy and supply chain management. The cases studied varied considerably with respect towards the potential benefit and drawbacks of the Euro. Some managers saw great opportunities, while others had mixed feelings and expected serious threats related to the Euro. Although, managers of all cases stressed clear opportunities and treats with the introduction of the Euro it is manifest that only Philips and Nutricia started the Euro debate well for its introduction.

Table 5-4: Critical Euro implementation dates

Construct	Consumer Electronics cases				Food cases			
	Philips	Sharp	Pioneer	Kenwood	Nutricia	Hero	McCain	Nestlé
Starting date technical process preparation	1-1-1994	1-1-2000	1-11-2000	1-10-2000	1-1-1998	1-9-2000	1-1-2000	1-1-1999
Internal date of implementation ⁷⁶	1-1-1999	7-1-2001	1-1-2001	3-1-2001	1-10-1999	1-1-2001	1-10-2000	1-1-2000
Euro leading ⁷⁷	1-1-1999	3-1-2001	1-1-2001	2-1-2001	1-3-2001	1-6-2001	1-7-2001	1-5-2001
Difference internal implementation date subsidiaries (months)	0	0	2	4	1	4	7	2

⁷⁵ Earliest implementation date was 1 January 1999, latest was 31 December 2001
⁷⁶ Euro becoming the leading currency from an administrative point of view
⁷⁷ Offering the possibility to suppliers to pay in Euro’s based on Euro price lists. Administrative Euro payments where often possible at an earlier stage as IT adjustments were made priory to pricing adjustments.

It was found that several issues had an impact on the adaptation process of the Euro. A pioneer approach in terms of early adaptation was found in the Euro zone originated cases. The firms either choose to take a period of time to change the inter company financial traffic into Euro's which was the case at Nutricia. On the other hand, a specific date might be set to changeover in order to overcome difficulties when dealing with two currencies at the same time and to create a clear situation at once. We could therefore distinguish three key elements that seemed to play an important role to adapt the Euro at an earlier stage.

First, based on the nationality of the firm there was a difference in dependency upon the new currency. Early adaptation was recommended when the currency had a direct impact on the reporting unit. Second, the complexity of the changeover process was largely influenced by the size of the European network. Thirdly, early adaptation gave the firm the flexibility to overcome any problems they might face, taken the official changeover timetable into account. Moreover, there seemed to be a relationship between the time taken to prepare for the Euro and the attitude related to the Euro. Despite that the Euro zone originated cases needed considerable more time to prepare for the Euro, it was also manifest that the preparation and thoughts of early starters such as Philips, Nutricia and Nestlé were in a significant more developed stage than those of their competitors. This viewpoint was clearly reflected in the strategic approach of these firms.

5.6.3.3 Marketing challenges

Philips saw the Euro as 'a catalyst' that would help firms, already operating in the Euro-zone, to benefit from cost advantages. In addition, there was a strong believe that the same financial language would result in acceleration towards market globalisation in this zone. Therefore, Philips believed that the cost advantages gained from elimination of exchange rate risks and improvement of cross-border transactions together with the price transparency would result in a new, more competitive environment with numerous opportunities to fully benefit from pan-European possibilities. The opposite was true for the managers of most other companies. Expectations about the Euro in general were low, and foreseen opportunities related to the effect of the Euro were nearly there. Managers in the CE industry were primary concerned with calculating new price points. In addition, they foresaw that the Euro would have an impact on profit margin as a result of increasing price competition with introduction of price transparency. Although this concern was commonly expressed, it had not let to significant steps to overcome this potential threat.

In the food industry, by contrast, marketing expectations were modest. Most used argument of explanation was the cultural dependency of this industry that significantly influenced the potential opportunities and threats of the Euro according to the food managers. It can be concluded that Philips had a more positive Euro attitude than their colleagues. The other cases often viewed these marketing challenges for the first time, or judged them as not significant. Yet, solutions needed to be found, which was shaping the attitude of these managers over time. The following table summarises the characteristics that were stressed to have a negative or positive impact on the faced marketing challenges as a result of the Euro;

Table 5-5: Key elements shaping the managerial attitude towards the Euro

	Characteristics and expectations that positively pressured firms to respond :	Characteristics and expectations that negatively pressured firms to respond :
Firm-Level	<ul style="list-style-type: none"> • High degree product standardisation • High degree promotion standardisation • Global product positioning • High degree of centralisation • High Degree of Internationalisation • High price differences 	<ul style="list-style-type: none"> • Optimising profit potential • Accurate product positioning • Product differentiation • Low degree of centralisation • Localisation
Industry-Level	<ul style="list-style-type: none"> • Increasing bargaining power of retailers • Formation of buying groups • Intensity of price competition • Decreasing amount of specialists • Existence of gray Markets • High price transparency • Increasing price awareness • Large number of global competitors • Industry internationalisation • Customer focus 	<ul style="list-style-type: none"> • Different country related trading cultures • Channel protection • Customer tastes
Macro-level	<ul style="list-style-type: none"> • Harmonising demand patterns • Information availability 	<ul style="list-style-type: none"> • Local taxes • Different European tax levels • Import duties • Local regulation

5.6.3.4 Level of Euro commitment

While constructs were broadly comparable, they have a situated and inter-dependent nature within the cases which is realised as the level of Euro commitment. That is, each case has a different meaning arising from the mutual dependencies between managerial interpretation and anticipation, and market and industry conditions. However, this meaning is pointing in a certain direction indicating a level of commitment to the Euro that can be defined as either more strategic, more technical or a combination of both. This last group is based on the awareness of the interpreter indicating that the manager has a certain expectation how the market is going to develop as a result of the Euro. This awareness is based on knowledge rather than ignorance. From this perspective, we want to point out that this alternative is arguably a subset of the more

strategic alternative, with the difference that no explicit action has been undertaken to resolve the uncertainty of expectation. On the contrary, the manager consciously prefers to wait and see how the expectations are going to develop in reality to reduce the uncertainty at a later stage. We will therefore define this level of commitment as the wait and see alternative.

The other two levels indicate an alternative direction that explicitly has been chosen by the manager to follow. The technical alternative is chosen when the manager either expected that the implications of the Euro were not that overwhelming for the particular firm, or the strategic implications were not that obvious for the manager and the manager was therefore not aware of the potential opportunities and/or threats. The strategic alternative implies that the manager identified clear strategic implications as a result of the introduction of the Euro and therefore has undertaken significant actions to deal with these implications. In addition, the three alternatives can be distinguished based on the level of recognition. This indicates that the technical response involves a tactical response with a low level of recognition. The wait and see response involves recognition as a strategic issue, however there is no action at this stage, in comparison to the more strategic alternative that shows strategic recognition and response. Using the three alternatives of Euro approach the viewpoints of the managers may be characterised thus:

Table 5-6: Categorical managerial views about the Euro before its introduction

More Strategic	
Philips	Philips as a Euro zone originated firm dealt with the direct impact of the Euro at a significant early stage. The centralised project team made sure that technical difficulties were overcome before its introduction. Adaptation at earliest possible moment was stimulated by the currency dependency, the size of the European network, and the complexity of the IT structure. This clearly influenced the commitment and the attitude of the managers in respect to the Euro. Concentrations on the strategic implications have guided the discussion. Significant expectations of direct impact on the market structure and levels of competition have led to strategic actions on a firm and product level.
Wait and See	
Sharp	Sharp's approach taken was primarily driven by the complexity of the IT structure. The centralised guidelines and tools illustrated how the firm aimed to overcome the technical difficulties. Changeover to the Euro took place at a late stage due to the low commitment of some European subsidiaries that significantly influenced the timetable of the process. Managers were primarily concerned with meeting the guidelines as set by the HQ to smoothen the technical changeover. As a result of the Euro, managers experienced some market changes going on during the changeover period, and therefore expected further market development in the future, especially after the introduction of the Euro on a consumer level. Despite these expectations no significant steps were undertaken.
Pioneer	The managers of Pioneer were guided by the centralisation of the technical changeover process. Major concern from a strategic point of view was how to satisfy the Pioneer customers and what price changes needed to be made as a result of the Euro. Actions undertaken to solve these issues led to an earlier adaptation process than their Japanese colleagues. From a pricing perspective the predicted impact was only expected on a longer term. The product life cycle negatively contributed to the expected pricing pressure as most products were replaced with an updated model on a yearly basis. The strategic perspective was more focussed on short term problem solving. Long term market changes were expected, however, Pioneer managers found it too early to translate these into actions and preferred to wait and see how the market was going to change as soon as the Euro was introduced on a consumer level.
Nutricia	The financial dependency on the single currency has positively contributed to an early technical implementation. The fact that this happened in close cooperation with the HQ was perceived as time and cost-effective. This has shifted the attention of managers to the strategic relevance of the Euro. General concerns were modest as managers did not expect a significant impact of the Euro on a short term. Actions therefore concentrated on satisfying the customers during the changeover period and adjusting the price policy. However, many more expectations were there in relation to long term market effects of the impact of the Euro especially in terms of increasing bargaining power of purchasers. Despite the fact that no direct action was undertaken to respond to these concerns before the introduction of the Euro on a consumer level, the managers expected to do so shortly after the changeover.

Nestlé	<p>The Euro changeover process has been perceived as a complex technical process that took some time to implement. The HQ guided subsidiaries in their implementation process, and IT tools were provided. Nestlé managers at the Dutch subsidiary had low expectations of the Euro, which resulted in no significant actions undertaken during the changeover process other than the necessary price calculations. It was not expected that the Euro would influence the customer behaviour as long as potential differences in Europe were explainable. However, on a longer terms it was expected that the Euro might have a more direct impact on the market structure and would influence issues such as purchasing power, internationalisation of retailers and price competition. Nevertheless, at this stage Nestlé managers did not find it important to respond.</p>
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More Technical

Kenwood	<p>The decentralised approach to introduce the Euro on a subsidiary level, demonstrated the low level of Euro commitment. Managers were locally concerned with the IT and financial problems related to the Euro. Managers claimed that the Euro did not play a significant role from a strategic point of view. This was primary driven by the price competitive behaviour of the firm in the past. Kenwood managers did not expect that the Euro would increase the price competition in the CE industry on the short term. Continuing the competitive approach of the past was perceived as an ideal strategic approach to overcome potential threats of the Euro. This resulted in a low Euro commitment where significantly small change took place other than the necessary technical adjustments.</p>
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Hero	<p>The Euro changeover process has been approached from a local market perspective. Subsidiaries were primary solving the technical problems that were faced as a result of the Euro. The IT system of the Dutch subsidiary has been made Euro-proof in 1998. Managers did not foresee any significant additional technical other than financial adjustments. Actions concentrated on calculating new price points and convincing customers of new price calculations. The most significant impact of the Euro was expected on a longer term. It was found likely that it would positively contribute to the appearance of new market players, and distribution channels were expected to gain more power. Despite, managers did not find it appropriate to make strategic adjustments based on these expectations.</p>
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McCain	<p>The companies origin, the relative simple market structure, and the currency dependency were significant arguments used by the managers to illustrate the technical approach of McCain. Primer importance was given to solving IT structural problems and training personnel to deal with the Euro. Impact expectations on a strategic level were low and only related to pricing issues. Actions taken as a result of the Euro concentrated on recalculating price points. The high degree of product customisation and local marketing approach of the firm were interpreted as important drivers lowering strategic diversity.</p>
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5.7 Euro interpretation matrix

5.7.1 Positioning coordinates of Euro interpretation positioning

The following table provides a summation of the constructs identified and discussed in the intended Euro strategy analysis. The constructs are scored based on the positioning technique as discussed in the T° definition and are used as an indicator where the firm is positioned on the X-axis explaining the extent to which the firm made an effort to understand the environment.

Table 5-7: Euro interpretation positioning coordinates X-axis

Construct	Consumer Electronics cases				Food cases			
	Philips	Sharp	Pioneer	Kenwood	Nutricia	Hero	McCain	Nestlé
Expected impact on Europeanisation	5	4	3	3	4	3	2	3
Expected impact on competitive environment	4	3	3	1	3	3	1	2
Expected impact on price competition	4	3	3	2	4	2	2	2
Structure and complexity Euro project team	5	4	4	2	4	1	2	4
Process speed and accuracy	5	3	2	2	4	2	3	4
Process complexity	5	2	3	2	4	2	2	3
Total	28	19	18	12	23	13	12	18
Average	4.7	3.2	3.0	2.0	3.8	2.2	2.0	3.0

The following table provides a summation of the constructs identified and discussed in the intended Euro strategy analysis. The constructs are scored based on the positioning technique as defined in T° and are used as an indicator where the firm is positioned on the Y-axis, explaining the extent to which the managers viewed the Euro as either more strategic or more technical.

Table 5-8: Euro interpretation positioning coordinates Y-axis

Construct	Consumer Electronics cases				Food cases			
	Philips	Sharp	Pioneer	Kenwood	Nutricia	Hero	McCain	Nestlé
Centralisation guidelines	5	5	5	2	5	1	2	5
Complexity IT structure	1	2	3	3	3	4	4	1
Provided IT tools	5	4	4	2	4	1	2	4
Dependency on the Euro	5	2	2	2	5	3	2	2
Start technical process	5	2	1	1	3	1	2	3
Adaptation date	5	1	2	1	3	2	2	3
Date Euro leading	5	2	3	3	3	1	1	1
Expected impact on price competition	4	3	3	3	1	1	2	1
Total	26	16	17	11	23	12	14	18
Average	4.3	2.7	2.8	1.8	3.8	2.0	2.3	3.0

5.7.2 Euro interpretation matrix

The following figure gives a graphic overview how the firms are positioned;

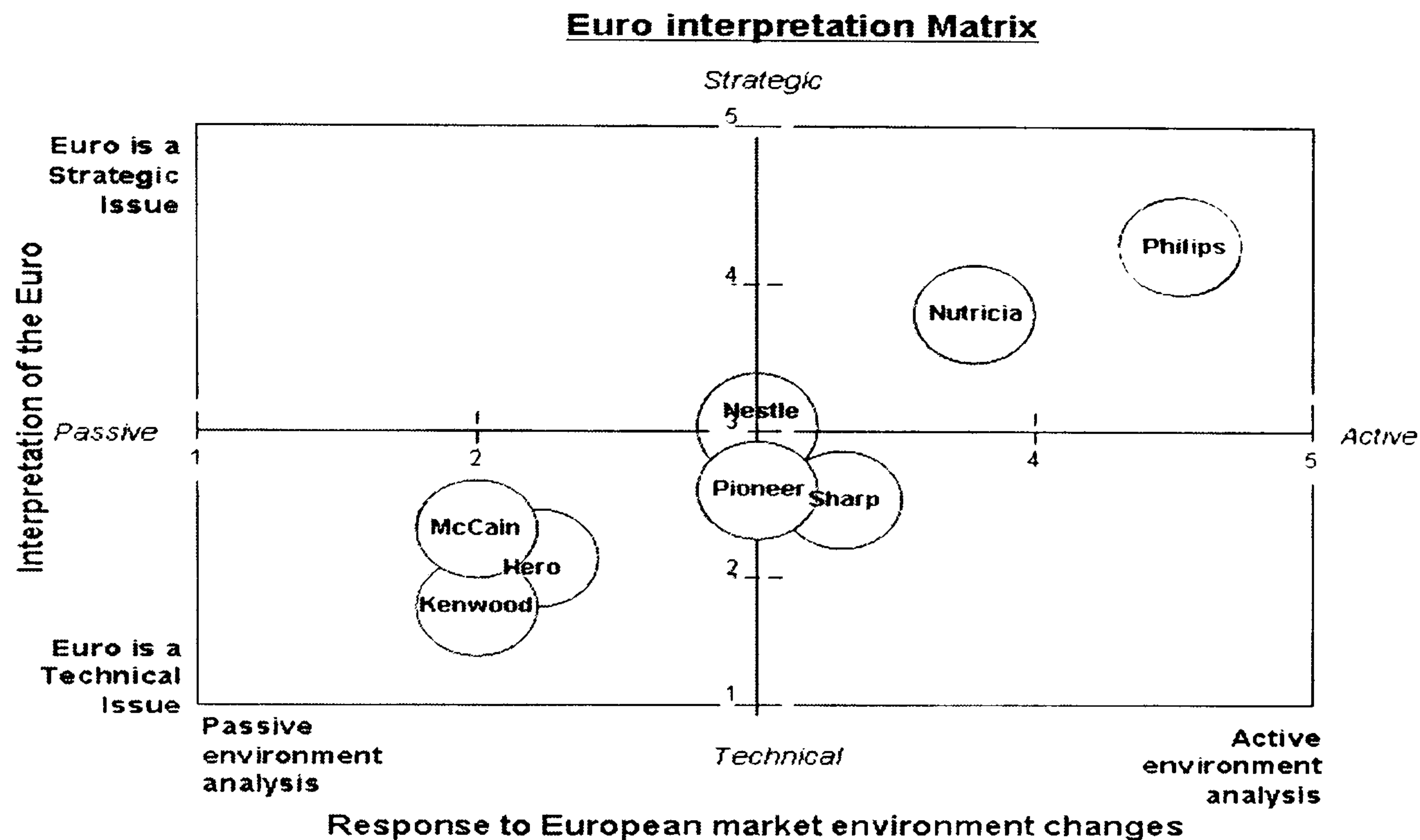


Figure 5.4: Euro interpretation matrix

5.7.3 Following the path of dependency

The purpose of this matrix is to set out the cognition/action relationship between the interpreted impact of the Euro and the extent to which the firm undertook actions to better understand this impact. Similar to the T° matrix we aim to explain if and to what extent there is a linear positive co-relation between thinking and acting, which in this case primarily refers to the relationship between the effort that is being made to understand the environmental change and managerial interpretation. The Euro interpretation matrix shows two cluster groups and the two Euro-zone origin firms separating from these groups by taking a more advantageous position. This yields a higher rating among the targeted firms. What it implies is that Euro zone originated firms took the matter more seriously than their colleagues. On the one hand this was driven by financial dependency on the single currency as a reporting unit; it is also manifest that on the other these two firms were more dependent on the Euro-zone region in terms of sales than the two clusters. Moreover, early adaptation clearly shaped the attitude towards the Euro as managers aimed to increase their knowledge by searching the environment more actively in what was most likely going to happen. Between these two firms the developments and thoughts of Philips were more advanced than Nutricia. Nutricia clearly identified opportunities and threats arising with the

introduction of the Euro, however they did not undertake significant action where Philips did find it important to undertake actions to take full advantage of the Euro. This is partly driven by the fact that there are industry differences that clearly pressure firms to harmonise or differentiate their European strategy to a higher extent demanding different responses to the Euro.

However, the fact that the firms are not clustered per industry also reveals that other issues played a significant role in this process. Interestingly, the significant difference between both clusters is the degree of interference of the companies HQ in steering the Euro project and ensuring technical and/or strategic commitment. Cluster one [*managers that viewed the Euro as a more technical issue*] operated in a decentralised manner. Managers in this cluster were more concerned with technical implications of the Euro as the changeover effects were being dealt with on a local level. Not only indicates this low level of network integration, it also shifted the concentration of the managers on other aspects of the impact of the Euro. While it was expected, based on the path of dependency, that Hero and McCain would be positioned in more technical quadrant of the matrix, it is surprising that Kenwood managers also revealed such a low commitment related to the Euro. The polarisation in the path of dependency of Kenwood showed some degree of strategic dependency upon the Euro, however this was not sensed by the managers during the changeover period. Within this cluster the concentration on technical issues was combined with low recognition level of the managers, and the pre-judgement of seeing the Euro as a technical issue. This resulted in a passive environment analysis as the managers did not expect to need additional information to deal with the Euro.

Cluster two [*managers that preferred to wait and see what was going to happen*] were more guided by the HQ. Detailed IT tools were often provided, and the local (subsidiary) concentration focused on strategic consequences at a significant earlier stage as technical problems were being dealt with on a higher level, which clearly influenced the attitude of these managers towards the Euro. Despite the two CE firms were expected to show a higher degree of strategic commitment based on their path of dependency it was clear that the managers recognised that some changes were going to happen in the market environment, however they anticipated that it was too early to respond. The position of Nestlé was the result of a strategic recognition of the managers to deal with the Euro in a short term, problem solving way. Managers explicitly chose for a tactical response by focussing on the threats that might have risen with the introduction of the Euro. The environment analysis showed it was not necessary to respond on a short term, however it was expected that there would be a long term effect.

5.8 Conclusion

This chapter has investigated the first level of analysis based around the sub-questions; Does the firm have a European strategy?; To what extent and in what way will the current strategy guide the response to the introduction of the Euro?; What impact of the Euro is perceived by managers? and; How does this impact influence the intended Euro strategy? In answering these questions, the first section examined the European positioning before the introduction of the Euro based on cross case comparison and preliminary analysis. This positioning matrix revealed the extent to which European strategies were developed and the extent to which the developed strategies were expressed in European marketing actions. The matrix confirmed the distinction between the more standardised CE industry and the more localised food industry as defined beforehand in the case study design.

Following this European positioning identification, we presented evidence in terms of processes that stimulated the sensemaking of managers to potentially treat the Euro as either more strategic or more technical issue. This path of dependency definition indicated that most CE and food firms were clustered in a small region of dependency which was more technical related for food firms and more strategic for CE firms.

The combination of the first two parts of this section served to identify the extent to which the firm was committed to the Euro strategically and how this influenced the intended Euro strategy. These indicated that industry differences played a less significant role than expected based on the European positioning and path of dependency analysis. Commitment to the Euro was clearly driven by financial and Euro zone sales dependency, which influenced the extent to which the environment was searched to decrease the uncertainty. This in return had an impact on the attitude towards the Euro, whereby firms that more actively searched the environment clearly found more significant strategic implications.

The next chapter will analyse the situation ten months after the introduction of the Euro at a consumer's level.

Chapter Six:

T¹ analysis

Strategy formulation is understood as a continuous interaction of emergent learning alongside deliberate planning. We will therefore combine the T⁰ definition and the intended strategy as analysed in previous the previous chapter and use it as the starting point to find out the extent to which the intended Euro strategy became the realised Euro strategy. First we try to understand what the firms learned after the initial plans were developed and implemented by studying the market changes from a macro perspective as they are perceived within each industry. This enables us to go one level down to analyse what exposed emerging issues were perceived and defined by the managers ten months after the introduction of the Euro on a consumer's level.

From this perspective, we are interested in the rate of success of the intended strategy. This rate of success is based on the managers understanding of the market development since the Euro strategy is implemented which indicates their definition of the 'right' problem at the 'right' time. This particular section analyses the extent to which the Euro was or was not a major discontinuity for the firm and if it led to a re-anticipation and reformulation of the intended Euro strategy. Not only will this outline the extent to which managers view the Euro afterwards as a more or less strategic issue, it also points out the extent to which an effort is being made to understand the market environment. This leads us to the third issue as from there the managers determine an appropriate course of action. From this viewpoint we define this issue as action oriented sensemaking which is reflective in the sense that action is guided by knowledge. We are particularly interested in the fact if the thoughts of the managers have Europeanised to a higher extent since the introduction of the Euro. If so, to what extent are these thoughts translated into more European oriented actions.

Based on this distinction we will first analyse the extent to which the intended strategy became the realised strategy by dividing the emergent strategising process into sensemaking [*i.e. what did the managers learn after the introduction of the Euro*] and strategising [*i.e. the extent to which the intended strategy became the realised strategy*]. Second we will analyse the extent to which the

perceived changes in market environment led to a new course of action. This implies that the following discussions are structured based on the interplay between sensemaking and strategising.

6.1 Interpretation of the impact of the Euro

Following the argument of Miles and Snow (Miles & Snow, 1978) that strategic management is the process through which managers ensure the long term adaptation of their firm to its environment, we assume that managers continuously try to optimise their effort. More explicitly, at the planning stage the goals desired determine the process. Yet, after implementation, an opposite functional holds. This suggests that, after the implementation of the Euro strategy, the outcome achieved and the goals realised become the dependent variable. Usually, the uncontrolled contingencies in implementation result in deviating the process followed from that planned. From this perspective, the actions and characteristics are no longer determined just by the aspirations of its managers and founders, but by characteristics other wider organisation environment linkages. It is the patterning of these linkages and interdependencies which enables the deterministic nature of strategic change to be examined. Strategic success therefore depends on how the market changed since the introduction of the Euro, and how this influenced the desired goals of the company. This section will therefore analyse the environmental changes as they are perceived by the managers.

The primary unit of analysis in defining environmental changes is the industrial level. The industry in which the firm participates helps define the manager's involvement with its environment. The core of a firm's industrial environment is represented by its competitors, suppliers, and customers. We will focus consideration of the firm's environment to its industry environment to provide an indicative analysis of the market changes that occurred. These indicators are a combination of the suggestions made by the managers in the industry. In both industries we can distinguish first and second order effects as the result of the introduction of the Euro. First order effects are creating a direct industry impact on the core industrial environment which can directly be related to the Euro and only emerged with the introduction of the Euro. Second order effects are occurring when the Euro can be indirectly related to the ongoing environmental changes in this industry. This can be related to the impact the first order effect has on the market environment and therefore is leading to market changes. In addition, the Euro can also be interpreted as a symbol that is pushing towards market integration, speeding up or facilitating current European thinking.

6.1.1 Environmental turbulence in the CE industry

6.1.1.1 Audit of environmental influences: key drivers

The continuously increasing technological advances have been leading to a convergence of production in the CE industry. In turn the competition in this industry progressively focuses more on other issues than product features. Hence, cost reduction has become one of the most important assets in recent years and price erosion has seriously shortened product life cycles. Taking this into account, the informants stress that the most significant impact of the Euro from a macro environmental perspective comes from an economic point of view. The CE firms clearly see cost advantages in the Euro zone as a result of the elimination of transaction costs on cross border trade, and the end to exchange rate uncertainty on intra-EU trade. However, the scale of these benefits does not outweigh the potential threats that appeared as a result of the price transparency in this market. While this has a consumer's impact it also implies that corporate buyers are able to compare prices in the Euro-zone which enables them to identify unjustified price differences which increases the bargaining power. The direct effect of the introduction of the Euro on the competitive environment is particularly important for the CE industry due to the high degree of technical standardisation which increases the likeliness that market parties will respond sooner or later. We will therefore concentrate on the impact of the Euro on the competitive environmental changes.

6.1.1.2 Key competitive forces

Arguably, the single most important influence of the Euro, and one that is likely to have a more lasting effect is the impact of price transparency on the bargaining power of both the suppliers (the firms themselves) and the buyers. Price transparency has led to a significant rise of comparative buying behaviour in the CE industry. While the CE firms can use the Euro as a tool to compare buying conditions in the Euro-zone, of more significant importance is the direct implication of these changes on the comparative behaviour of retailers. The fact that it is easy to compare prices between the participating countries increases cross border trade. This is particularly evident in the CE industry due to the high degree of product standardisation. Previous existing pressures such as grey market imports and cross country price comparison are being pushed, which in turn creates opportunities for retailers that CE firms need to deal with. As a result, the CE firms noted that many retailers are moving across borders, or combine the forces with international parties. Although this internationalisation of retailers is an upcoming trend in this industry the first signs of impact were clearly evident.

The second influenced force is the impact of the Euro on price competition, increasing the competitive rivalry on a Euro-zone level. The increasing price competitive pressure has several implications. It has been acknowledged by the respondents that the Euro is clarifying the market situation as the Euro can be used for both internal and external benchmarking. From an internal point of view the Euro has helped to simplify communication among the Euro-zone subsidiaries, which has similar implications from an external point of view. In both cases it is easier to spot price differences, questioning why other subsidiaries or competitors are capable of creating a certain business environment. Yet, the benefits of benchmarking are becoming clearer in the CE industry. Internally it increases the competitiveness of Euro-zone subsidiaries as it potentially increases efficiency. Externally, it has an Europeanising effect as it increases rivalry on a Euro-zone level.

The third force that has been significantly impacted by the Euro is the consumer demand condition. While the Euro itself does not directly influence the consumer needs, it increases the price awareness to fulfil these needs. What this implies is that comparative buying behaviour as a result of price transparency is also having effect on a consumer level. CE firms note that in recent years the advent of the internet has significantly changed the buying behaviour of consumers. In addition, increasing standardisation and convergence of technology have also contributed to the changes in buying behaviour. From this perspective, CE firms expect that the Euro will take this behaviour one step further. CE firms are pressured to differentiate products or explain price differences across nations.

6.1.2 Environmental turbulence in the Food industry

6.1.2.1 Audit of environmental influences: key drivers

The cultural sensitivity, the differences in legislation, and the high degree of customisation are only few of the arguments why the impact of the Euro is perceived as less significant in the food industry. Nevertheless, from a macro environmental perspective, the respondents do relate the impact of the Euro with economical and political issues. Particularly from an economical point of view the price transparency in the Euro-zone is mentioned as a facilitator to market changes. This refers to price competition, the standardisation debate and the internationalisation of retailers.

6.1.2.2 Key competitive forces

A much more significant vote is given to the symbolic effect of the Euro on the food industry in terms of new (multinational) entrants, the internationalisation of retailers, increasing

collaborations and mergers, which are pushing food firms to think and sometimes act more European. On the one hand this stimulates the cooperation of subsidiaries in this zone, while on the other hand it might lead to friction between the subsidiary and HQ, due to the fact that most firms in this industry have operated on a local level for a long time. Taking this into account, the respondents related the Euro as a stimulator of the ongoing market changes in this industry rather than referring to its direct pricing impact. In this respect we find two key arguments arising.

Firstly, price transparency as a result of price comparison is identified as an important tool for retailers to find out the similarities and differences of food multinational products in the Euro-zone. Although the internationalisation of retailers is not a new issue in this industry, respondents stress that the Euro clearly stimulated retailers to look across borders, which might strengthen their bargaining position. It is expected that on the long term the developments in Europe, including the Euro, will significantly impact the channel availability and construction in the Euro-zone. While this might be perceived as a threat, some firms see it as a clear opportunity to sign European contracts to create a more consistent environment. Secondly, the Euro signified the existence of a large free trade area that invites exporters to compete in this market. The threat of new entrants depends on the barriers there are to entry. With the arrival of the Euro some significant economical barriers have been taken away, which is perceived as another stimulator for international players to enter the European market.

6.1.3 Detecting change of impact interpretation

The environmental turbulence analysis provides an indication of the impact of the Euro as it is perceived in each industry. This helps us capturing the experience and wisdom of organisational members to what extent they believe that the Euro impacted the market environment. Most significantly we try to capture the sensemaking of a group of individuals within the firm that created a shared meaning and shared experience, so collective intuitions facilitate enacting rather than reacting on the environment. This will analyse what firms have learned since the introduction of the Euro by looking at two different aspects; what effort has been made to understand the environment, and what impact of the Euro is understood. This will reveal if and how the perception about the Euro changed since T°.

6.1.3.1 Degree of environmental scanning

The extent to which the environment is scanned⁷⁸ by the firm is not only based on managers' understanding of the changing environment, it equally depends on the starting point of the firm. In other words what did the managers learn in the past what actions were taken before the introduction of the Euro and how do the present developments interfere with these actions. This primer judgment made by managers partly explains the scanning behaviour of these managers. From this perspective we find that firms that viewed the Euro as more technical in the past move in two directions. Either they still do not see any strategic implications which subsequently lead to a low degree of environmental scanning, or they see strategic implications leading to a higher degree of scanning. In comparison to the firms that were more strategic oriented in the past, these firms firstly need to close the gap, before they can move forward. What we find in these firms is the need for environmental scanning [*information gathering, analysis and interpretation*] in order to take novel actions that lead to a significant strategic change. A comparison with the Euro interpretation matrix positioning as found in T° will help us identify the extent to which the attitude towards the Euro changed.

6.1.3.2 Euro Impact understanding

Consistent with the Euro interpretation matrix we find that managers' interpretations are not sector based, but more driven by the judgement of managers whether the Euro is a technical issue or if they find strategic implications. From the three firms that saw no significant strategic implications of the Euro before its introduction, only McCain maintains sharing this view. Main arguments that are put forward are related to the simplicity of the frozen food sector, and the bargaining power of McCain in this sector. What this implies is that issues such as price transparency are not interpreted as important as the managers do not notice any pressure to make adjustments to the current approach. Further implications, beyond pricing, are not being sought after. This indicates that McCain identified some environmental changes, however, the impact of these changes is judged as non-significant. From the other two firms Hero revealed a significant interpretation shift, which can be divided into two stages.

Firstly, short after the introduction of the Euro Hero experienced a temporary effect which negatively influenced the sector image and the turnover of the company. This effect was mainly

⁷⁸ Environmental scanning is divided into three levels. First the gathering of information concerning the organisation's external environment. Second the analysis and interpretation of this information, and thirdly the use of the analysed intelligence in strategic decision making. We concentrate here on the interpretation and analysis of groups of individuals assuming that the interpretation refers to a high or low degree of information gathering.

due to the price changes on a retailer and catering level that significantly influenced the consumers' price perception. Secondly, the impact of this effect on the market leads to an increasing awareness of the impact of the Euro. Implications are not only related to pricing issues, but also to the changing competitive position in Europe. Although environmental scanning on this level only started recently, managers feel pressured to think and act more European. This notification searches for solutions how to improve and use for example internal and external benchmarking, network integration, communication, and European production. Kenwood is more concerned with the impact of the Euro on price competition. Managers notice that price differences cause European instability and should therefore be reduced. This aim increases internal benchmarking and European network integration. Furthermore, Kenwood managers expect that the impact of the Euro needs more time to develop, both on an industry and consumer level. The Euro is therefore interpreted as a facilitator or symbol which is only one of the many drivers that will increase industry transparency which eventually will have a significant impact on the competitive position of the firm in this market. The attention of Kenwood managers is focussed on how to differentiate in this industry, and how to improve their position. The result is a more active environmental scanning behaviour whereby the impact of the Euro is being studied in more detail.

Among the firms that were in anticipation of what was going to happen, significant strategic implications were only noticed by the Sharp, and to a less significant extent by Pioneer. Sharp managers expect that the price transparency and the resulting price comparative behaviour of market players is only the start of the market changes. As a result of price transparency the managers find significant strategic implication that need to lead to a more stable European environment with less price differences across the European countries. Sharp sees this as an ideal opportunity to optimise internal benchmarking. The benefits of internal price comparison have been welcomed and now managers want to apply this to other issues to optimise the consistency of the European strategy. The Euro is therefore interpreted as a facilitator with a direct impact on market transparency that indirectly inspires to think and act more European. Pioneer only sees strategic implications in terms of pricing. Managers feel pressured to respond on transparency, and therefore aim to reduce the price differences in Europe to avoid instability. Further implications are not being sought after. According to managers of Nutricia and Nestlé the impact of the Euro in terms of price transparency has not really become an issue in their sector. For Nutricia this is being explained by the fact that the health and nutrition sector is being protected by local legislation that allows price differences in this region. Nutricia sees that the

recent market developments are going in the line of expectation, and the Euro did not bring other implications that were not anticipated. Nutricia managers stress that the internationalisation of retailers and the arrival of more global players in the Euro-zone has been ongoing for years and the Euro might only have speeded this process to a certain extent. Nestlé's abstaining position is maintained after the introduction of the Euro. While some strategic implications were expected, environmental scanning has taught the managers that it is not necessary to respond. Market changes are perceived as similar for every market player, so the impact is only steering the players in a certain direction. Despite that there is a global pressure to lower the costs and improve the competitive position in Europe, Nestlé does not attribute this to the Euro.

Philips, who has been aiming to take an advantageous position in relation to the Euro, continues to do so after the introduction. Managers use the Euro primary as a strategic benchmarking tool. Competitive and internal analyses are taken to a higher level and managers perceive that the Euro is contributing to the goals of the company. Despite that the introduction of the Euro increased potential threats, Philips managers take this threats seriously and believe that they can be overcome. Strategic implications are for example related to improving European consistency, contribute to the global identity, level with the main competitions on a European scale, and diminish the product variety to create a more consistent image.

6.1.4 Euro interpretation Matrix at T¹

6.1.4.1 Construct consistency

The intended Euro strategy could be based on the Euro notion in combination with a dynamic capability view as managers were facing similar technical applications to define the Euro strategy. Yet, after the introduction of the Euro, potential technical problems are likely to be solved and the discussion moves forward to patterning the implication to the wider organisation environment. This can partly be explained by strategic learning as managers before the introduction of the Euro acted based on intuition. Managers cannot be effectively intuitive unless one has intimate knowledge of the subject in question. Intuition during T⁰ is therefore based on impact expectation and during T¹ it is based on impact perception. Both expectation and perception are given meaning based on the environmental analysis (data collection) and this in return shapes the interpretation of the manager how to deal with the Euro. What we see is two different approaches both indicating the level of environmental understanding and the extent to which a technical or strategic meaning is given to the Euro. In T⁰ the impact expectations are translated in Euro project

team complexity, process speed and accuracy⁷⁹. Moreover, these expectations are driven by technical complexity, financial dependency and centralisation of decision making which significantly influences the (technical and strategic) response. While the outcome leads to different constructs, the type of constructs can be mapped to similar interview questions, indicating the reality of the strategic movements:

Table 6-1: Construct consistency

Construct T°	T° question examples	Construct T¹	T¹ question examples
Expected impact on Europeanisation, Centralisation guidelines, dependency on the Euro	<ul style="list-style-type: none"> Will the introduction of the Euro influence the MNE objectives in terms of profit, sales and market approach? What is the impact of the concept of price transparency that arises with the introduction of the Euro on the business strategy? Does the MNE have a European strategy? Does the MNE see Europe as one market or does it work with pan-European segments? Is parallel import currently an issue? 	Cross border trade, Parallel import, Think and act more European, Change European positioning, Create European stability, Benchmark internally	<ul style="list-style-type: none"> Has the introduction of the Euro influenced the MNE objectives in terms market approach? Is the Euro used strategically to push to any changes? Did the Euro led to a higher level of Europeanisation of the business strategy? If so, how? Does the MNE see Europe as one market or does it work with pan-European segments? Did the Euro change the perception? Do you believe that a European market is starting to evolve?
Expected impact on competitive environment	<ul style="list-style-type: none"> What where the first thoughts of the Euro related to the competitive environment? Will marketing mix elements become more standardised as a result of the Euro? If so, how and why? What kind of competition is there in the Euro-zone, global or local? 	Competitive rivalry, Purchasing power of the retailer, Benchmark competition, Customise products	<ul style="list-style-type: none"> Did the Euro lead to any significant competitive changes? How did the chosen strategy (global/local) and the perception of the European market influence the marketing actions? Did the bargaining power of distributors increase as a result of the Euro? What kind of competition is there in the Euro-zone, global or local?
Expected impact on price competition	<ul style="list-style-type: none"> What is the impact of the concept of price transparency that arises with the introduction of the Euro on price setting? Do you expect that the Euro will lead to more price competition? To what extent does the Euro force you to put prices on the same level within the Euro-zone? 	Price competition, Price comparative behaviour, Explain price differences	<ul style="list-style-type: none"> Did the Euro increase price competition? Is it possible and desirable to standardise prices? Does the company respond on competitive price changes? Are retailers pushing to do so? Do you notice an increase of price comparative behaviour on a retailer level?

⁷⁹ These constructs are defined in T° and are interrelated to the Euro expectations before its introduction. I.e. firms with higher expectations are likely to approach the problem more seriously and are therefore searching the environment more thoroughly by using more advanced project teams and techniques to scan the environment, in order to deal with uncertainty.

Therefore, the extent to which the changing patterns are interpreted as strategic can be based on the scanning behaviour of a group of managers. This allows us to reposition the firms in the Euro interpretation matrix. However, sensemaking and analysis of managers is now based on the strategic implications these managers define, which significantly influenced the constructs used. We therefore describe managers that do not see significant implications as more technical than those that see significant implications.

6.1.5 Positioning coordinates of Euro interpretation positioning

The following table provides a summation of the constructs identified and discussed in the post Euro analysis. The constructs are scored⁸⁰ based on the positioning technique as discussed in the T° definition and are used as an indicator where the firm is positioned on the X-axis explaining the extent to which the firm noticed the impact of the Euro.

Table 6-2: Euro interpretation positioning coordinates X-axis at T¹

	Consumer Electronics cases				Food cases			
Defined impact of the Euro on:	Philips	Sharp	Pioneer	Kenwood	Nutricia	Hero	McCain	Nestlé
Price competition	5	4	5	4	3	4	2	2
Price comparative behaviour	5	4	4	3	3	4	1	3
Purchasing power of the retailer	4	4	2	2	4	3	1	3
Parallel import	5	4	3	3	3	3	1	3
Cross border trade	5	3	2	2	2	4	1	2
Competitive rivalry	4	4	2	3	3	3	2	3
Total	28	23	18	17	18	21	8	16
Average	4.7	3.8	3.0	2.8	3.0	3.5	1.3	2.7

The following table provides a summation of the constructs identified and discussed in the post Euro analysis. The constructs are scored based on the positioning technique as defined in T° and are used as an indicator where the firm is positioned on the Y-axis, explaining the extent to which the managers feel pressure to respond on the impact of the Euro.

⁸⁰ 1= not noticed, 2=noticed but not important, 3=noticed but no novel action, 4=noticed and novel action to be taken, 5=noticed and novel action taken

Table 6-3: Euro interpretation positioning coordinates Y-axis at T¹

Consumer Electronics cases					Food cases			
Defined pressure of the Euro to:	Philips	Sharp	Pioneer	Kenwood	Nutricia	Hero	McCain	Nestlé
Explain price differences	5	4	3	3	2	3	1	3
Customise products	5	4	2	2	2	3	1	2
Create European stability	5	4	3	3	3	4	2	2
Change the European positioning	4	3	2	2	3	4	1	2
Think and act European	5	4	3	3	3	4	2	2
Benchmark internally	5	4	4	2	3	3	2	3
Benchmark competition	4	3	3	2	3	3	1	2
Total	33	26	20	17	19	24	10	16
Average	4.7	3.7	2.9	2.4	2.7	3.4	1.4	2.3

6.1.6 Euro interpretation matrix T¹

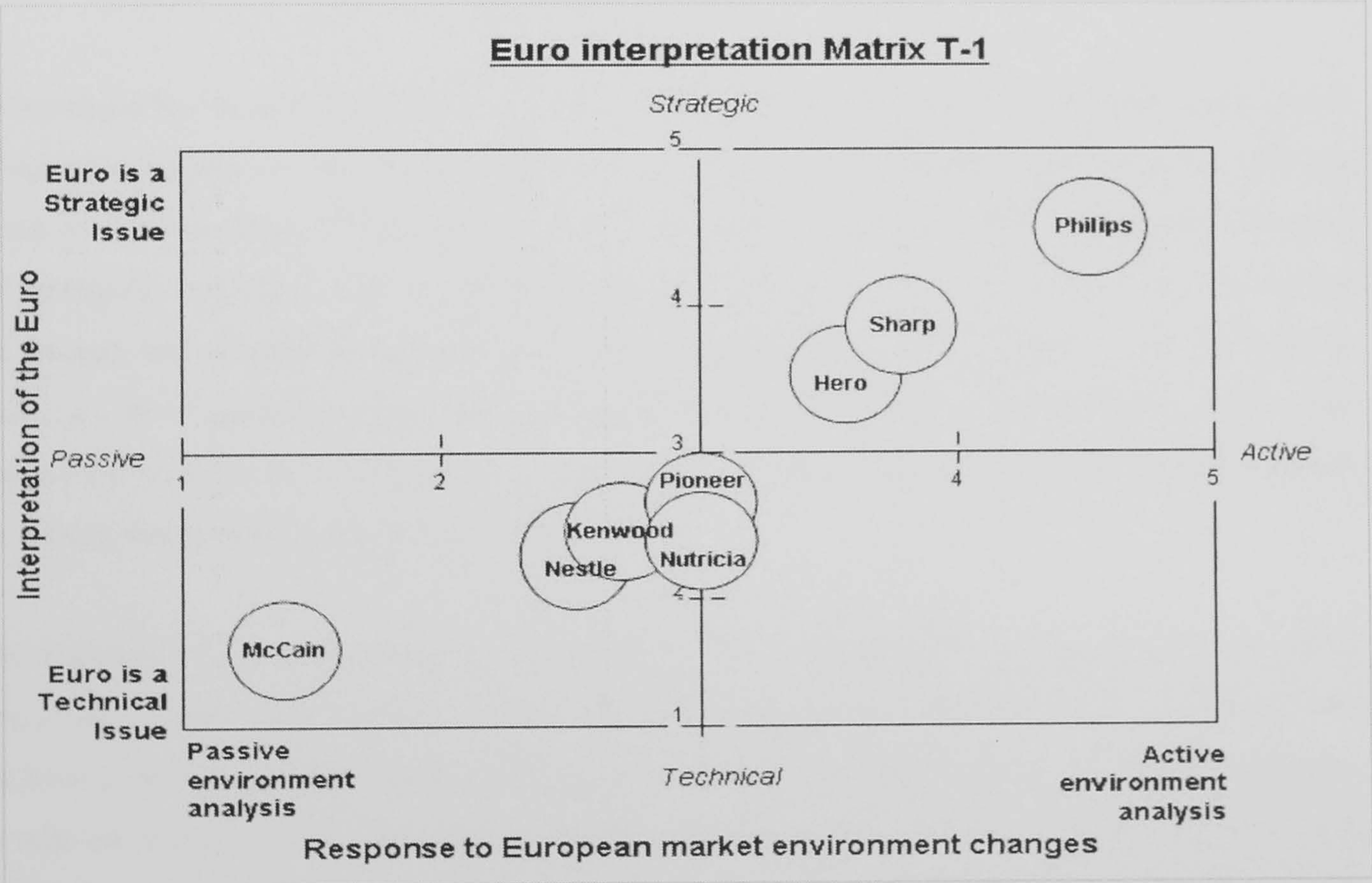


Figure 6.1: Euro interpretation matrix T¹

6.2 The rate of success of the intended strategy

Based on the emerging development of the Euro we find significant differences in attention and interpretation of managers. While before the introduction issues such as urgency, understanding and importance helped managers to apply meaning and definition to the issue, now visibility, emergent learning and occurrence, help managers to refine their judgements. The learning

processes and significance given to changes in the environment differ significantly across the studied multinationals. The importance given to the Euro depends if the managers interpreted the effect or impact after its introduction as an interruption in the ongoing flow of sensemaking. Whether the impact of the Euro is perceived as significant can be based on the understanding and definition of its impact. From this perspective we can define five levels of perceived impact of the Euro;

1. The organisation might not notice the environmental changes
2. The organisation notices the changes but does not take action
3. The organisation notices the changes but does not take novel action (routine, non learning sequence)
4. The organisation notices the changes and is planning to take novel action
5. The organisation notices the changes and takes novel action

What these levels indicate is that the impact of the Euro varies based on the fact if attention is given to its impact, it stimulates to take action and that the action taken is indeed novel action that leads to re-formulation of the strategy. Following figure 6.1, we find that Philips takes the most advantageous position with a high level of deliberation⁸¹. Actions of the past are further developed and adjusted to the current situation. The opposite is true for McCain who defines the Euro as non significant and further implications are not being sought after. Before the introduction of the Euro McCain expect some implications, managers now see no opportunities or threats that require strategic adjustments.

The majority of the firms, however, interpret the Euro as a strategic routine and do not find it important to take novel action. These firms are clustered in the centre of the matrix. The surprising firms in this cluster are Nutricia and Kenwood, who made the most significant changes in relation to the intended strategy. Kenwood experienced some market changes that are more significant than anticipated in advance. While Kenwood only saw technical implications in the past, the managers now reveal a strategic impact on price related issues. In addition, they also foresee future developments that need to be taken into account. The opposite is true for Nutricia and Nestlé who both recognise market changes, however, they did not find it important to respond. Surprisingly this thought is also applied to price transparency.

⁸¹ the extent to which the intended strategy became the realised strategy

While most firms revealed increasing pressure as a result of price transparency, Nutricia and Nestlé managers judged this to be less significant in their sector. For both firms this re-anticipation resulted in a significant decrease of environmental scanning as the impact faced could be dealt with in a sequential way. Among these four firms the highest level of deliberation is found at Pioneer. Managers of Pioneer foresee some strategic implications, however only on the anticipated price level. Interestingly we find a cluster of firms who make significant adjustments to their intended strategy in order to deal with perceived strategic implications. Most importantly these firms expect that the market changes as a result of the Euro pressures them to think and act more European.

Based on the chosen market approach⁸² before the introduction of the Euro, we identify a significant difference of impact. For Sharp this implies an increase of Europeanisation pressure that requires adjustments and fine tuning of the present European strategy. For Hero the awareness of the impact of the Euro will lead to a strategic shift that requires the development of European elements.

6.2.1 Euro interpretation matrix T^0 versus T^1

The following figure gives a graphic overview how the firms are positioned against each other, and how they moved from T^0 to T^1 per industry;

⁸² Referring to local or (pan) European market approach

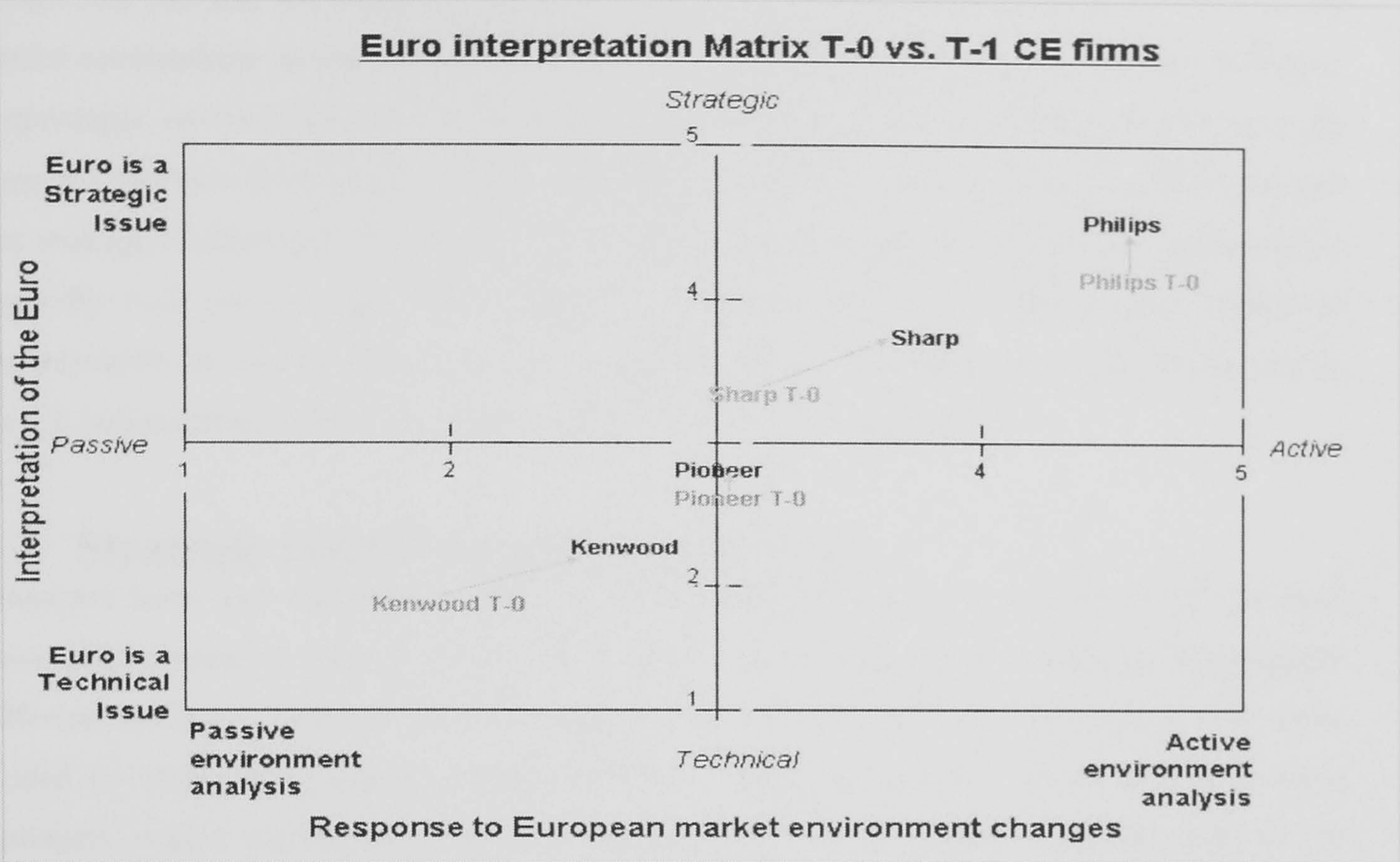


Figure 6.2: Euro interpretation matrix T⁰ vs. T¹ CE firms

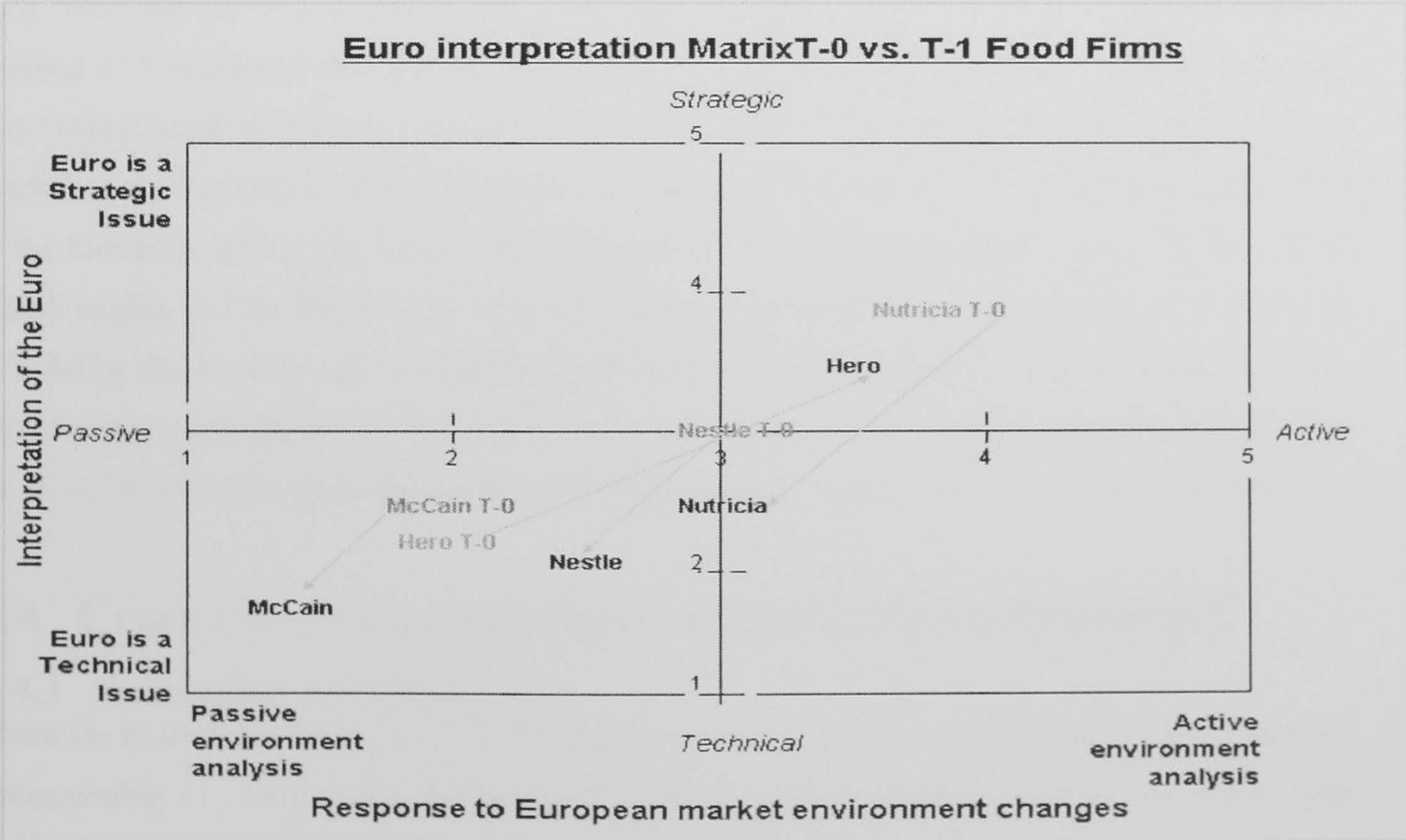


Figure 6.3: Euro interpretation matrix T⁰ vs. T¹ CE firms

Despite the fact that the levels of perceived impact of the Euro are not industry bound, we see similar sensemaking patterns in the CE industry and conflicting movements in the food industry. Surprisingly, we find that most of the firms that took an advantageous position in relation to the Euro at T^0 are now drawn closer to the initial defined strategic path of dependency. This indicates that managers either underestimated or overestimated the impact of the Euro. Overestimation generally took place in the food industry, while managers in the CE industry tended to underestimate the impact of the Euro. This does suggest that the impact of the Euro was greater in the CE industry than in the food industry, which confirms the expectations.

6.3 Strategic intentions and actions at T^1

Managers learn and reanticipate based on their perceived impact of the Euro. The previous knowledge generating analysis showed that similar impact perceptions are sensed significantly different, leading to different impact interpretations. While T^0 sensemaking seemed to be more guided by short term tactical response driven by technical issues, we now find that some managers expect significant long term implications which indicate different degrees of Europeanisation thoughts. As previously noted these thoughts can be more guided by the path of dependency of the firm, while on the other hand it might imply a significant shift in the identified path. What we aim in this section is to analyse the extent to which the Euro is integrated into the strategy as a legitimate device to undertake more European oriented actions. Strategic change in this context involves either a redefinition of organisational mission and purpose in the European market or a substantial shift in overall priorities and goals to reflect new emphasises or directions in the European market. We assume that strategic shifts are the result of manager's interpretations which implies that for this analysis strategic plans are interpreted as novel actions. This allows us to redefine the T^0 cross case comparison of European marketing strategy and the extent to which this strategy is translated into actions, by looking at the extent to which constructs changed after the introduction of the Euro. Definition will take place per industry and between both industries.

6.4 Cross CE case comparison of European positioning T^1

6.4.1 European portfolio

There are product portfolio changes taking place at all four CE firms. Both Philips and Sharp are concentrating on diminishing the product variation in the European market. For Philips this implies a reduction of model differentiation and a clear focus on high end products to upscale the consumer perception. Changes in this respect are directly attributed to the introduction of the Euro, which has been used to harmonise the portfolio to a higher extent. Sharp's variation

reduction is the result of an ongoing process of product upgrading that has been ongoing for some years. Recent market developments speeded up the search for portfolio consistency in the European market. The product spread of Pioneer and Kenwood seems to be unaffected, however, both firms reveal a shift in product type concentration. This shift is mostly attributed to the technological development competition. From this perspective Pioneer is continuously focussing on improving developments and upgrading products in order to distinguish from competitors. Kenwood is experiencing difficulties to fully concentrate on a distinctive product design, which slightly shifts the attention towards becoming more price competitive, resulting in product cost reduction which very likely influences the overall product quality standard. To sum up, European product portfolio changes are resulting in decrease of portfolio spread for Philips and Sharp which directly can be related to the Euro. Shifts in portfolio concentration take place at Pioneer and Kenwood as a result of competitive developments which indirectly can be related to the Euro.

6.4.2 European network integration

The previous section showed that the Euro pushed the CE firms to a certain extent to make adjustments to their portfolio in order to be more consistent on a European level. This implies that the CE firms aim to respond on a European level indicating the need of cooperation between HQ and subsidiaries. One of the indicators might be the extent to which European network integration is actively stimulated after the introduction of the Euro. From this perspective we find that significant efforts are being made by Sharp and Kenwood, while Philips and Pioneer undertook action in the past and do not see any further implications to make significant adjustments other than fine-tuning the current situation. We therefore can identify a relative consistent network environment within these two firms. Consistency is in this case being created by clear organisational structures with centralised decision making mechanisms. Sharp bases the European inconsistency on a lack of European centralisation of decisions. The existing organisational structure enables the firm to make adjustments by authorising the EHQ to guide subsidiaries and stimulate closer cooperation between the European subsidiaries. The European Kenwood network clearly lacks knowledge to stimulate integration at this stage. European subsidiaries are guided on a global level and only the first signs of European cooperation are showing. Most significant step in this direction is the recently achieved combined effort of introducing a specific product in all the subsidiary countries using the same tools to position the product.

6.4.3 European benchmarking

Another indicator of European consistency might be the extent to which European subsidiaries are benchmarking each others strategy. In this respect managers often mention the impact of the Euro as a tool simplifying the comparison of subsidiary strategies. This reveals that Philips is the only firm that actively uses the Euro to compare strategies and analyse competitors' behaviour across European markets. Other firms recognise the benefit, however, did not take any significant steps to take advantage.

6.4.4 Identification of a European consumer

A third indicator of European consistency might be the extent to which firms see possibilities to group consumers of various European countries. Based on the outcome we can observe that the complexity of the understanding and definition of European consumers has increased significantly within Sharp who identify the importance of the identification and approach of European segments to realise their European goals. In comparison to Philips identification who already focused on the customer intimacy scheme by satisfying global consumer needs with innovative R&D, Sharps' identification is more based on the recognition of the importance of European segmentation. The perceived market changes as a result of the Euro are being related to the European consistency of actions targeting similar consumers. Identification is being related to positioning guidelines that aim to approach consumers in a similar way. However, no clear definition is given who these consumers are other than the subsidiaries interpretations of who this consumer should be in their market. On the other hand no significant change in European consumer definition or notion took place for Pioneer and Kenwood.

6.4.5 European product positioning

The European product positioning is here interpreted as the combination of the above indicators to consistence the strategic approach in the European market. As identified in the sub-level indicators, we observe several stages of Europeanisation of the strategy that do indicate what the firms currently concentrate on to improve the European approach. Rather than viewing this as separate steps we note that managers give importance to a stage in a non-particular sequence. However, the sequence confirms that there are similar interrelationships it also confirms that these each of the variables is given different importance by the managers involved. From this perspective we note that Philips takes the most advantageous position based on their previous identification and response of European developments that has led to a relative consistent European marketing mix. Current developments prioritise a solid execution of this European mix by standardising European marketing processes to a higher degree. Sharp is recently being guided

by retailers that are becoming active across borders. This stimulates Sharps' search for European consistency. Most significant step taken in this direction is the product portfolio changes in order to improve the image consistency in Europe. Simultaneously, closer network integration aims to contribute to this European goal from a different perspective. Developments at Pioneer indicate that the European notion seems to meet the global strategy of the firm. Recent global developments positively contribute to the Europeanisation of Pioneer's strategy. In this respect we observe improving marketing mix standardisation within Europe on a product, communication and distribution level. However, no further steps are indicated by managers that further action is going to be undertaken in the near future. The opposite situation is true for Kenwood managers who reveal a changing European notion, requiring improvements on a European level. Despite the necessity definition of European improvements Kenwood faces a lack of European experience. Clearly there is a need for more internal and external knowledge before future steps can be undertaken. First steps in this direction are taken from a product perspective. Recently the company launched a product on a European level indicating a high level of marketing mix consistency and network integration to achieve this.

6.4.6 European competition

All four firms pointed out the significant impact the Euro has on competition in this industry. Most important argument in this respect from a purchasing power perspective, which is changing the comparative price buying behaviour of retailers, stimulating them to improve the European situation as a whole. Philips and Pioneer already started a programme to harmonise prices to a higher level in Europe so that price differences are explainable and extremes would disappear. Sharp is currently aiming to improve the price comparative situation in the Euro zone. And Kenwood particularly focuses on the internationalisation of retailers as a significant limiting factor to distribute their products via the traditional channels they use in this market.

6.4.7 European marketing actions

As previously being pointed out, the Euro has a significant impact on particular aspects within each of the CE firms. All four firms actively search the internal and external environment to improve European consistency. From a marketing perspective we find that product portfolio gaps are closing and CE products are becoming more standardised on a European level. The introduction of the Euro particularly increased the awareness of European portfolio consistency. Sharp and Philips therefore take significant action to standardise the portfolio. Pioneer and Kenwood respond less actively but instead focus on a technological shift in their portfolio. At all

four cases it is found that the underlying thought is based on the notion of increasing price competition, which significantly speeded up since the introduction of price transparency. Eventually, all four firms expect that this will lead to an increasing pressure to harmonise the price to a higher degree. However, at this stage only Philips and Sharp undertake significant action to justify price differences and to deal with any unjustifiable pricing extremes. Pioneer aims to avoid extreme price competition by focussing on technology and distribution differentiation, which indicates a low level of price response. Kenwood moves away from their previous price positioning perspective by facing the price competition and finding alternative ways to deal with this type of competition. Most significant step taken in this direction is the recent evolving product production actions in order to lower costs.

The increase of European product introductions positively contributes to the European consistency for all four of the firms. However, there are significant differences in the extent to which advantage is taken from European product introductions. Interestingly, all four firms aim to improve image consistency and are therefore continuously trying to combine the subsidiaries efforts. This results in an increase of promotion and advertising consistency on a European level at all four firms. Simultaneously these firms are aiming to increase efficiency to generate cost advantages. Philips is the most advanced firm from this perspective, while respectively Pioneer, Sharp and Kenwood show increasing efforts resulting in European marketing actions since the introduction of the Euro.

6.5 Cross Food case comparison of European positioning T¹

6.5.1 European strategy

The food firms show differences in interpretation and perception of the impact of the Euro, which significantly influences the actions taken. Taken this into account we find three levels of response in the food industry. The first level encompasses the firms that either do not recognise the ongoing market changes, or define these changes as non-significant and therefore choose not to respond to these changes. The second level includes firms that recognise the market changes, define them as significant and choose to customise their strategy to emphasise the local market approach. This will confirm the path of dependency of the food firms. A third level includes firms that recognise the market changes, define them as significant and choose to act more European by standardising strategic aspects on a regional or European level. We will therefore analyse the extent to which firms customised or standardised their market strategy.

6.5.2 European portfolio

In comparison with the T° situation we find no significant changes in the European product portfolio of Nutricia, Nestlé and McCain. All three firms stress that the current market approach of customised products is protected through internal variation and external market differences. Product customisation is the chosen product strategy for McCain to avoid European competition and to fulfil local market needs based on cultural differences. Customisation at Nutricia and Nestlé is taking place for the same reasons, while these companies add that these products are customised because there is no European potential or there are market limitations to internationalise the concepts. Current market changes do not affect the market situation according to the respondents of these companies. The opposite is true for Hero. Where Hero has been concentrating on a local market approach in T°, the current situation shows that there is a significant shift towards a higher degree of product concept Europeanisation. This implies that actions are taken to internationalise some of the current product groups. Current concepts with international availability are going to be standardised to a higher degree based on core product group steering from a particular subsidiary level that is appointed based on its expertise in relation to that concept. In addition, based on a country potential analysis, new products will be added to the current subsidiary product portfolio.

6.5.3 European network integration

Whilst there are no significant changes in the product portfolio since the introduction of the Euro at Nestlé and Nutricia, we do find that earlier Europeanisation efforts are being given significant more importance. This results in an increasing emphasis on centralisation of decision making results in a limitation of strategic flexibility for subsidiaries. These companies feel pressure as the result of country comparative behaviour on a marketing level, and therefore aim to maximise the consistency in Europe. There clearly is a wish to improve the consistency of Europeanised concepts, however, there are several reasons among which friction between subsidiaries and HQ and country to country differences in Europe are the most significant limitations to achieve this goal. A similar wish starts to play a role at Hero, who aims to combine the previous local market approach with a newly to be adopted European approach. It seems to be a clear advantage for Hero that the initiative of this approach is a collective decision of European subsidiaries, which limits the potential threat of friction. First actions taken include the appointment of the product group responsibility per subsidiary, and European product development. Moreover, these developments are accompanied with monthly European meetings. Surprisingly, there is no

pressure being felt by the managers of McCain, which results in no significant changes in the network integration, other than the existing high level of integration on a production level.

6.5.4 European benchmarking

The internal and external limitations to increase European consistency additionally limit the possibility of benchmarking on a European level. However, most managers do see implications to use the Euro as a tool to compare subsidiary strategies within Europe. Particularly from a pricing perspective the Euro is being interpreted as a useful tool to find out more about subsidiary and competitive pricing behaviour. Nevertheless, none of the firms made significant steps to apply the potential benefits yet.

6.5.5 Identification of a European consumer

An increase of the complexity of the understanding European market led to a more advanced definition of the European consumer at Hero. The search for similarities in consumer needs in Europe increases the awareness of European segment definition. Aim from this perspective is to approach similar consumers in a consistent manner from a marketing perspective. However, like Nutricia and Nestlé, the view of target group definition in Europe does not go further than the identification of similar consumer interests. Despite the simple definition we can conclude that among these three firms there is an increasing awareness of the existence of a European consumer. Although this does not suggest for these firms these groups are identical across the European nations, it does suggest that similar needs can be identified and targeted in a more consistent way.

6.5.6 European product positioning

Unlike the CE managers, food managers have a much lower strive to search for European consistency. Although it is important for some strategic concepts to identify the potential highest degree of positioning consistency in Europe, this identification is often limited by internal and external factors. Moreover, the strategic concepts account for a relative small amount of the total product portfolio. Based on the strategic concept dependency we can identify different levels of European product positioning consistency. The highest level of European consistency can be found at Nestlé based on the relative large amount of global concepts with strict positioning guidelines and high levels of standardisation. The importance of these concepts for growth in the European market in combination with the internationalisation of retailers and the role of price transparency, prioritise the actions taken to improve consistency for these concepts continuously. The Euro from this perspective has actively increased the importance of consistency for these

products of Nestlé. The impact of the Euro on European consistency of Nutricia products is much lower due to the significant impact of local legislation on strategising concepts. Consistency is being sought after by developing a European strategy with European goals. However, this strategy is very flexible and strategic control is relative low which implies that significant changes can be made if necessary to meet the local standards. On the one hand this lowers the consistency potential, while on the other it protects Nutricia from potential threats such as the internationalisation of retailers. McCain is not actively looking for European consistency, on the contrary McCain aims to customise the products to the highest extent to optimise the local barriers. Despite the fact that products are positioned based on local interpretation, there is a consistent factor due to the simplicity of the frozen food industry and the similar approach McCain takes within this industry. However, recent market changes do not motivate McCain manager to take action. Even though the lowest degree of European consistency is found at Hero, there are clear plans and actions that indicate a changing situation. Most evidently is the policy that is set up including clear communication guidelines to position internationalised concepts similarly. The addition of internationalised concepts aims to add a consistent factor in the portfolio on which the brand perception can be harmonised.

6.5.7 European competition

The introduction of the Euro stimulates European competition in the food industry from two perspectives. Firstly it makes it easier for market players to move across borders which increase the substitutive competition and the purchasing power. Secondly it increases the comparative behaviour of market players, which increases the price competition and it pressures firms to justify price differences. In relation to the first argument, we identify a significant impact of the internationalisation of retailers for those firms who sell internationalised concepts. McCain is the only company that welcomes this development as they see European contracts as an important tool to increase growth in Europe. Nutricia and Nestlé both anticipated the increase of purchasing power and took action before the introduction of the Euro. Hero realises the threat however no action is taken yet to deal with it. In relation to the second argument it is manifest that none of the players took action to deal with price differences in Europe. All four firms claim that price differences at the moment are acceptable and justifiable.

6.5.8 European marketing actions

As indicated in the European strategy the diversity of the food industry creates a context dependent view of the impact of the Euro. This context dependency can be based on the

availability of (potentially) internationalised product concepts. We identify an increase of standardisation or customisation pressure perception in the Euro zone countries. However the extent to which firms respond to the changing market environment significantly depends on the extent to which the perception of managers leads to an identification of importance to emphasise current standardisation, customisation, or to move in either one of these directions. What we find in this respect is that the chosen market response is based on the extent to which response opportunities are identified often limited through the existence of market response barriers. From a marketing perspective we observe that the market changes do not significantly impact the extent to which products are customised or standardised. Three out of the four companies claim that current market barriers limit the standardisation possibilities of their products. The same barriers also protect these firms from direct product comparison which justifies the current degree of customisation. Hero is the only company that perceives the current level of customisation unjustifiable for certain concepts and therefore choose to undertake significant actions to increase the current level of standardisation for some products. Moreover, the changing market is also perceived as an opportunity to internationalise new products. Particularly the increasing pressure of market comparison by players on several levels has increased the awareness to take action.

Interestingly, we observe that the pressure of European consistency on internationalised concepts significantly influences the search for communication consistency in the Euro-zone. Firms actively aim to improve the European positioning by standardising promotional activities to outline the Europeanisation of the concept. This recently increases the standardisation of tools such as branding, logo, and packaging for some of the products of Nestlé, Nutricia, Hero and McCain. However, limitations such as cultural differences, eating habits and language barriers clearly influence the extent to which the communication is consistent. The combinations of limitations in the degree of product and promotion standardisation lead to country specific products. This in return significantly influences the price and distribution policy used. On the one hand it causes price differences for these concepts in Europe as there are different cost structures. Although these price differences are evident, none of the firms takes significant steps to harmonise these differences.

Then again, the customisation of products (and image) creates a more flexible distribution policy which allows choosing for country specific distribution channels rather than European consistent channels. Although some of these channels seems to move across borders and start to compare negotiating standards in Europe since the introduction of the Euro, this is not yet perceived as a

threat to undertake action for Nestlé and Nutricia. Instead this companies aim to tackle increasing purchasing power by avoiding European contracts. For Hero, this market development did not direct to distribution changes, it did however stimulate the firm to take action and create a more consistent European environment where necessary.

6.6 European strategy positioning matrix T^1

Primary aim of the T^1 analysis is to find out to what extent the Euro has an impact on the European strategy of the firm which lead to marketing actions. This indicates the extent to which the European notion has changed since the introduction of the Euro (T^0). A direct comparison between T^0 and T^1 can be made based on the same constructs. Minor interpretation differences occur in the network integration construct, which moved from more technical (production) integration towards more strategic integration (network cooperation). A similar situation occurs for global sourcing and benchmarking, which before the Euro concentrated on the first while after the Euro the discussion focussed on the extent to which the Euro in particular led to strategic comparison of the network. Although this leads to a slight shift in discussion, it focuses more on the impact of the Euro which contributes to the goal of this section to point out the changing European notion as a result of the introduction of the Euro. From a similar construct perspective we can directly compare T^0 with T^1 . An unchanged construct score will therefore indicate that no significant changes took place. A higher construct score indicates a growing degree of Europeanisation while a lower score indicates that the Euro led to a higher degree of localisation.

6.6.1.1 Positioning coordinates of T^1 positioning

The following table provides a summation of the constructs identified and discussed in the European strategy analysis. The constructs are scored based on the positioning technique as discussed in the T^1 analysis and are used as an indicator where the firm is positioned on the X-axis.

Table 6-4: Euro interpretation positioning coordinates X-axis at T¹

Consumer Electronics cases					Food cases			
Construct	Philips	Sharp	Pioneer	Kenwood	Nutricia	Hero	McCain	Nestlé
European Portfolio similarity	5	4	4	4	2	2	3	2
Network integration	5	4	4	3	3	3	4	4
Global Sourcing and benchmarking	5	4	4	3	2	1	3	2
European Consumer identification	5	3	2	2	2	2	1	2
European product positioning	4	3	4	3	3	3	1	4
European competition	5	4	4	3	2	2	1	2
Total	29	22	22	18	14	13	13	16
Average	4.8	3.7	3.7	3.0	2.3	2.2	2.2	2.7

The following table provides a summation of the constructs identified and discussed in the marketing actions analysis. The constructs are scored based on the positioning technique and are used as an indicator where the firm is positioned on the Y-axis.

Table 6-5: Euro interpretation positioning coordinates Y-axis at T¹

Consumer Electronics cases					Food cases			
Construct	Philips	Sharp	Pioneer	Kenwood	Nutricia	Hero	McCain	Nestlé
Degree of marketing implementation control	5	4	4	3	3	3	3	3
Degree of European product standardisation	4	4	4	4	2	2	1	2
Degree of European promotion standardisation	5	4	4	3	3	3	2	3
Degree of European price standardisation	5	3	3	3	1	1	1	1
Degree of European distribution standardisation	5	4	3	3	2	4	3	4
Total	24	19	18	16	11	13	10	13
Average	4.8	3.8	3.6	3.2	2.2	2.6	2.0	2.6

6.6.1.2 European positioning matrix T⁰ vs. T¹

The following figure gives a graphic overview how the firms are positioned against each other, and how they moved from T⁰ to T¹ per industry;

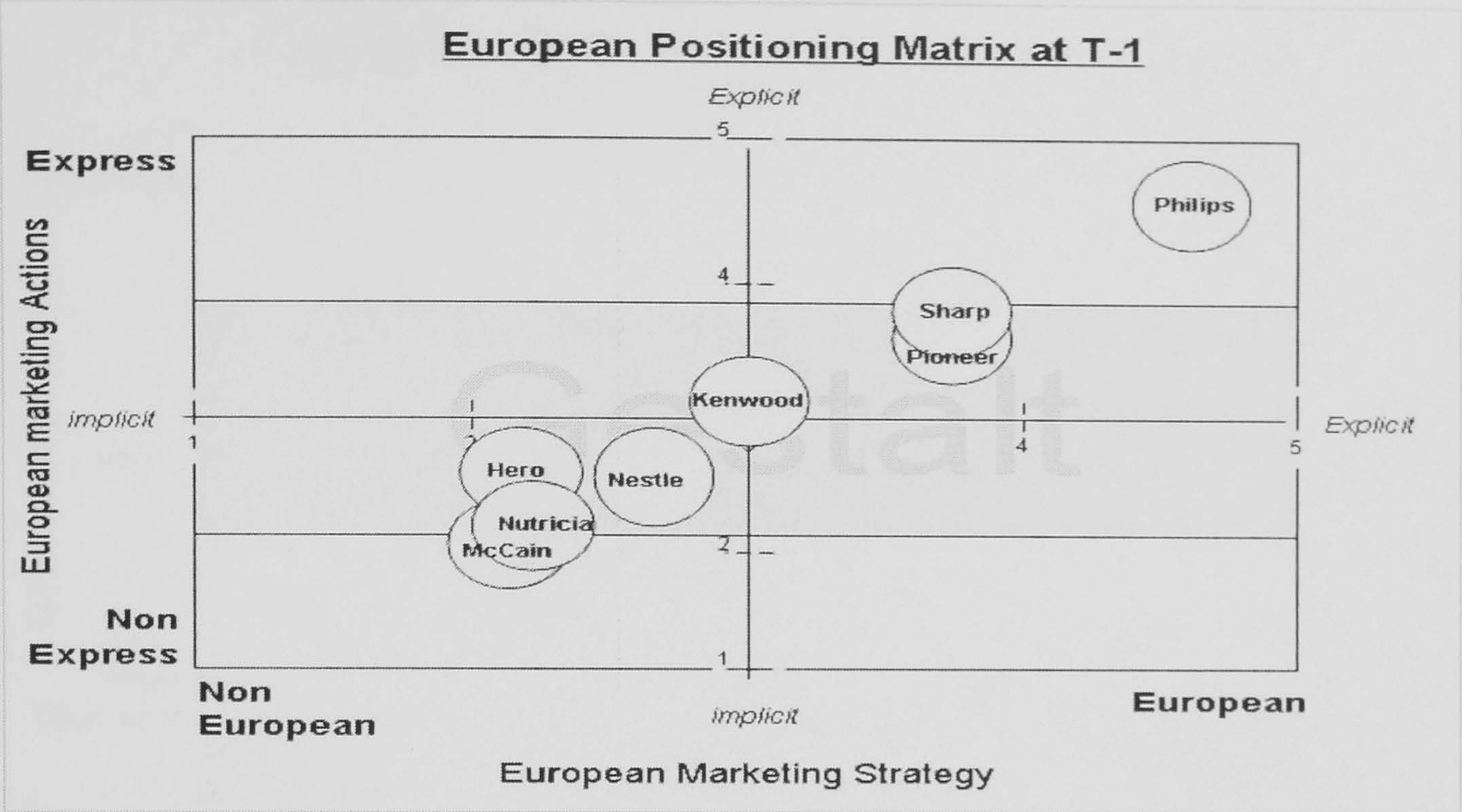


Figure 6.4: European positioning at T¹

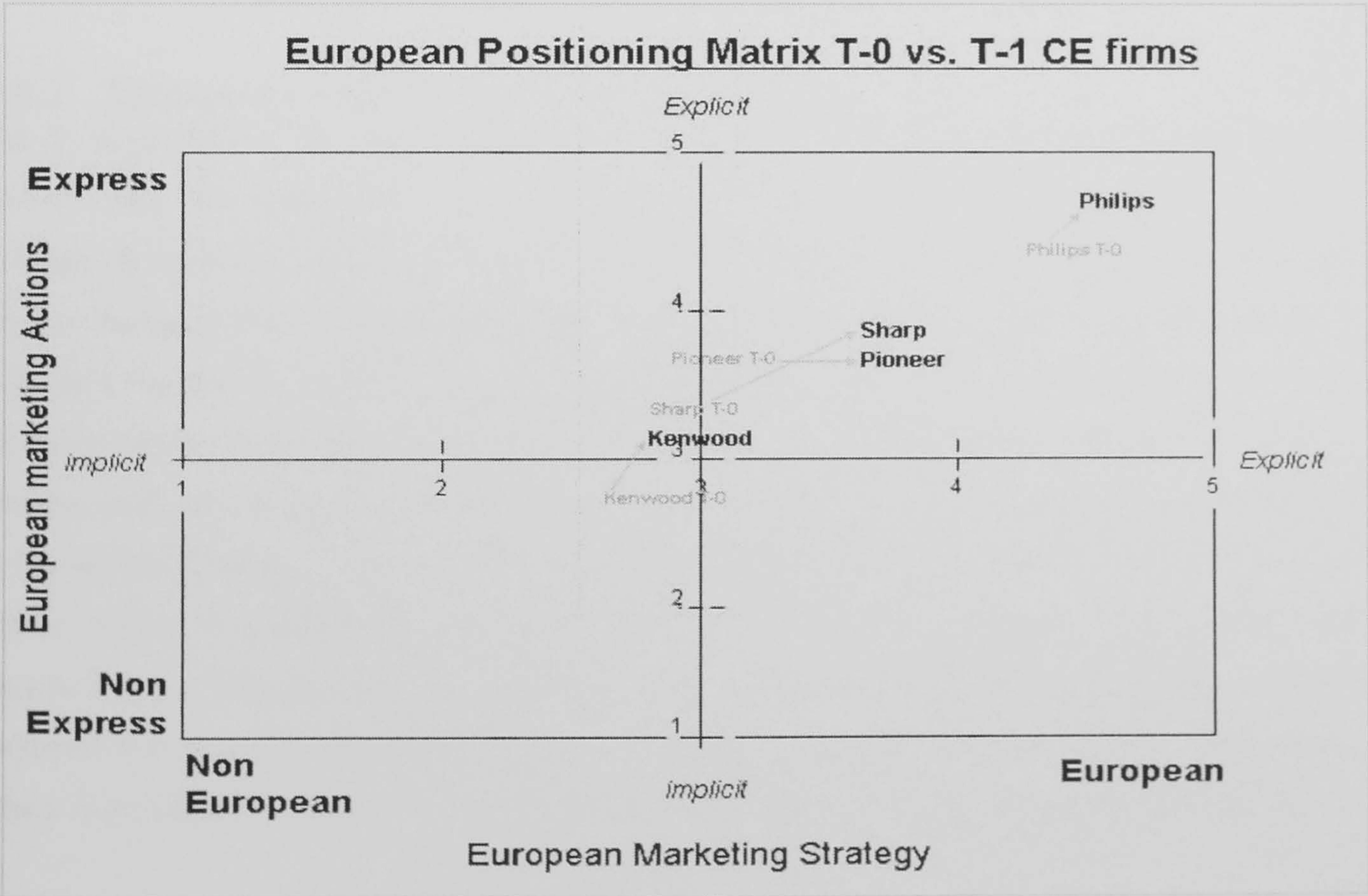


Figure 6.5: European positioning at T⁰ vs. T¹ CE firms

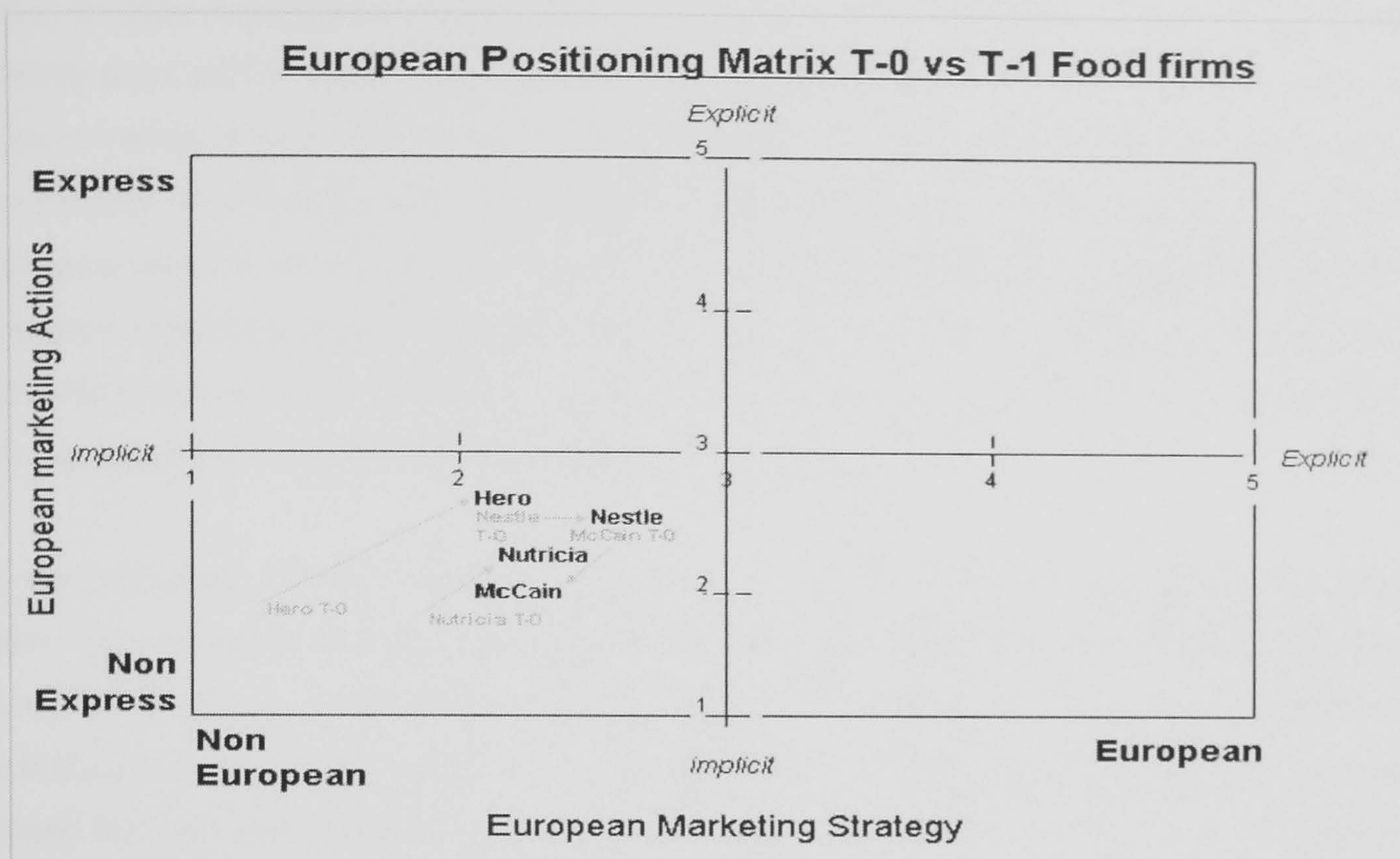


Figure 6.6: European positioning at T⁰ vs. T¹ Food firms

6.6.2 European strategy direction analysis

The T¹ positioning matrix also confirmed the distinction between the CE industry and the food industry after the introduction of the Euro. Overall we can identify three types of European strategic development since the introduction of the Euro. First we see firms that recognise the market changes, which Europeanises their marketing view and strategy; however, this view does not direct the firm to take any significant action yet. These firms are specified with a horizontal direction arrow. Secondly, we see a firm that might or might not have recognised the market changes, but at least defined these changes as less significant as long as the strategic differences in Europe are justifiable. To emphasise this viewpoint marketing actions taken are customised to a higher degree to increase the current differences. This firm is specified with a downwards diagonal arrow. Thirdly we notice that most of the firms make a diagonal upwards move, which indicates that the introduction of the Euro increased the Europeanisation view of these firms, which is translated in a higher degree of marketing programme and/or process standardisation.

Among the firms that standardise to a higher degree we detect that there are firms that standardise relatively more since the introduction of the Euro than others. This partly can be explained by the fact that some firms learn more and re-anticipate to a higher extent than others. However, it could also indicate that the impact of the Euro was more significant for one firm than it was for the

other. In other words, there seems to be a relationship between the initial European positioning starting point and the extent to which the Euro has been used as a trigger to '*catch up*' with the market leading strategy. This is being confirmed in the CE industry where these firms re-cluster on a higher level in the matrix, significantly closing the gap with the firm that takes the more dominant position. Similarities in European development perceptions are being transferred into European marketing actions differently based on the previous European strategy and the market knowledge and capability to respond. Strategic development is being articulated in a confirmative way, pointing out the sensemaking of managers in this industry.

In the food industry the re-clustering of firms is significantly evident since the introduction of the Euro. This clustering is taking place because there is no significant action taken by the more Europeanised firms, or the action taken leads to a lower degree of Europeanisation which is indicating a differentiation/customisation strategy. What this explains is the fact that there are clearly different perceptions of the impact of the Euro, and the extent to which it is affecting the European strategy. While this is also based on the previous European strategy the Euro in this industry is being interpreted from extreme perspectives either leading to no significant market changes or as a trigger to make significant changes in the current strategy. This points out the sensemaking perspective of managers in this industry. The extreme perspectives of standardisation and customisation are confirmed, while strategies of firms where managers interpret the impact of the Euro as a strategic routine do indicate that the strategic implications as a result of the Euro are not always leading to no response. In some cases we found that despite the managers' interpretation the sensemaking is still leading to a higher degree of marketing standardisation. What this suggests is that manager are overruled, or do not fully reveal the European coordination of the firm making the suggestion or sensemaking of individuals of less significant importance. This finding is confirmed by the extent to which these firms are moving closer towards the initial defined strategic path of dependency.

6.7 Conclusion

Following the T^o level of analysis this chapter has made a comparison how the perception and strategic intentions changed ten months after the introduction of the Euro. We particularly concentrated on the sub-questions; What impact of the Euro is perceived by managers? How does this impact influence the intended Euro strategy? And; what new actions are intended in response to the impact perceptions?

In answering these questions we first investigated the environmental changes as they were perceived by managers to develop a narrative which described the industrial market changes and the behavioural of each firm. The narratives were then subjected to cross-case comparative analyses to specify the extent to which the Euro has been interpreted differently since its introduction. These indicated that different levels of strategy deliberation are evident based on a significant difference in understanding and definition of the impact of the Euro. Although the level of perceived impact was not industry bound we found that food managers generally overestimated the impact of the Euro while managers in the CE industry tended to underestimate it, suggesting a greater impact of the Euro in the CE industry with different levels of Europeanisation thoughts.

The second section therefore focussed on the interplay between impact perception and strategic intentions by analysing the extent to which the Euro is integrated into the strategy as a legitimate device to undertake more or less European oriented actions. This indicated that the Euro has significantly influenced the European viewpoint of most firms. Interestingly this viewpoint was articulated in various ways. Unlike the sensemaking perspectives of some of the managers this articulation was leading to either significant change in the present path of dependency while for most cases the strategy confirmed the path of dependency to a higher degree after the introduction of the Euro, which advocates the Euro as a reinforcement driver.

Chapter Seven:

Discussion

This present chapter presents a further analysis and discussion of the main findings of the research. Although the analysis up to this point has identified discrete characteristics which are context dependent and case-specific, this chapter does not engage in an in-depth comparison of these points of contrast and commensurability between the cases. The intention of this chapter is to further explore and discuss the themes that have been arising from the eight cases. These themes concentrate on the perceived impact of the Euro and the extent to which this has activated firms to undertake further action. Hence, the focus is not upon aspects of cross case variance. While variance clearly provides a useful platform for future research, it is beyond the scope of this research, which aims primarily to conceptualise the relationship between the introduction of the Euro and its perceived impact on the Europeanisation of strategy in the Euro-zone. This chapter is focused around three key-questions that are central in the debate how the behaviour of each of the firms is influenced between T^0 and T^1 . The key-questions we address are;

1. To what extent and in which ways do managers anticipate the impact of the Euro?
2. To what extent and in which ways is the Euro a stimulus for strategic change?
3. To what extent do changes in interpretation about the impact of the Euro lead to changes in strategic response?

What we aim to distinguish between is those firms that see more direct impact since the introduction of the Euro, those that start to act more proactive and those that did both. Given these central questions together with the above objectives and the analysis of the previous chapter, the themes can be grouped into three distinctive but interrelated levels: The anticipation on emerging market changes, the interpretation of loci of causality after the introduction of the Euro, and the resulting transitory states of adaptation. This study acknowledges that the three levels identified here are not as definitive as they might seem. Different research findings may arise from similar social settings, when research foci and perspectives taken to anticipate the social reality can vary. However, the following analysis is based on the researcher's interpretation and knowledge which best conceptualises the dynamics of the studied phenomena.

The remainder of this chapter is presented and discussed in three sets of analysis that refer to the above mentioned key-questions. The first question presents the analyses and discussion of interpretation before the introduction of the Euro, question two presents the analyses and discussion of interpretation of the impact of the Euro after its introduction. Finally, the third key question of interest is the interrelationship between the changes in interpretations and the changes in strategic response.

7.1 Strategic behaviour before the introduction of the Euro

Summary of key findings

Probably one of the most distinctive findings arising from the T^o level of analysis on Euro perception is based on the extent to which firms vary coevolving with their environment before the introduction of the Euro. Based on the process of scanning and interpretation (Daft & Weick, 1984) a series of interrelated constructs were identified exploring the variation of strategy alignment for each firm.

The key constructs indicating environmental scanning behavioural differences can be related to:

- Environmental complexity definition
- The selection of environmental themes
- The strategy in use before adaptation takes place

As a result of these constructs we could identify different ideas, values, beliefs and expectations about the potential impact of the Euro that indicated two distinctive ways firms dealt with the Euro before its introduction:

- Preventive homeostatic intention
- Anticipatory strategic intention

7.1.1 Pre Euro Adaptation: Variation of strategy alignment

It is often asserted that whilst firms must continually monitor the environment and make strategic decisions that keep them aligned with new opportunities and threats in the environment (e.g. Miles & Snow, 1978; Mintzberg, 1978; Quinn, 1980), they only actually do so from time to time. The underlying assumption is that organisations are naturally change resistant and will only change when forced, ‘kicked’ or disturbed into doing something (see for example Miller & Friesen, 1984; Pettigrew, 1985). When the need for fundamental change is recognised, management embarks upon a significant strategic initiative, requiring a shift into a more

structured strategic process. Although there are obvious benefits of adjusting the strategy early to meet the changing demands of the environment (e.g. Haveman, 1992), it is also pointed out that it is often difficult or even impossible for some firms to make adjustments to their current strategy (Miller & Friesen, 1984). For example, limitations on strategic change have been attributed to established commitments and the development of standard operating procedures (Hannan & Freeman, 1989). It is therefore not surprising that firms in a profoundly changing environment vary significantly in the timing of their attempts to alter strategy.

In this research this timing is primarily affected by managers' interpretation of the environmental impact on the firm as understood as a result of environmental scanning. Different levels of scanning behaviour significantly influence the alternatives that can be envisaged in the form of distinct configuration of environmental variables. In other words, managers only anticipate a few events or trends based on what they know and how they understand it. Other trends are not yet recognised. Similarly, the strategy in use also plays an important role in guiding interpretation (Daft & Weick, 1984). The organisation's strategy amounts to a statement of intention that influences perceptions of key issues reducing the interpretative focus. What our findings clearly indicate is that both strategy and environmental scanning shape predispositions that focus attention on some information and exclude others. This in turn shapes the interpretation and anticipation process of the manager. Following this argument figure 7.1 provides an interpretation schema based model for understanding the interrelationship between scanning and interpretation on which the findings on variation of strategy alignment before the introduction of the Euro will be discussed.

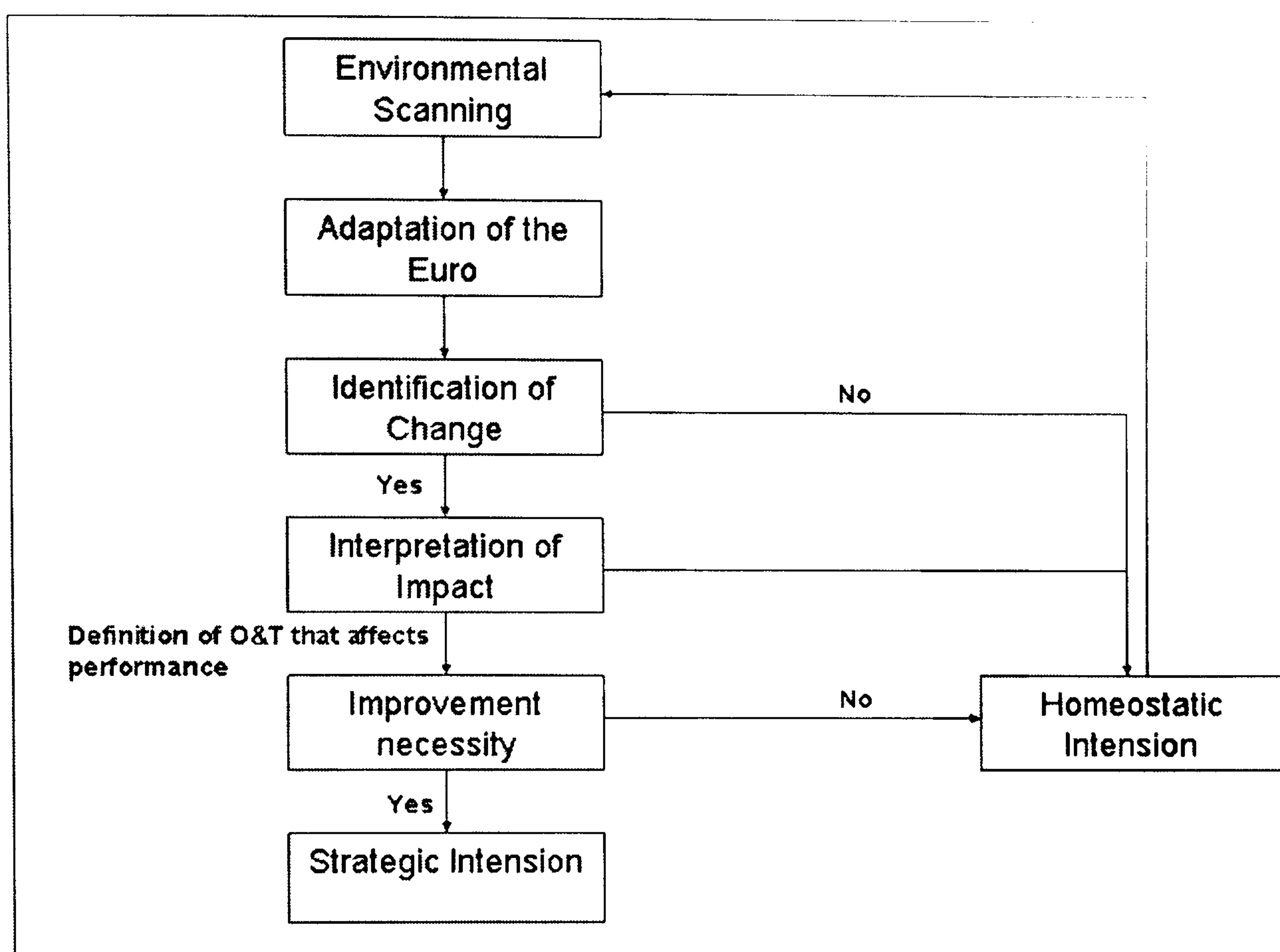


Figure: An interpretative schema of the impact of the Euro

Figure 7.1: An interpretative schema of the impact of the Euro

7.1.2 Environmental scanning: the identification of change

In a situation of overwhelming complexity (Kauffman, 1995) or limited environmental knowledge due to a lack of experience as the event happens infrequently which causes accumulating knowledge difficulty (Sproull *et al.*, 1991), organisations seek to increase information. Various gatekeepers aim to draw attention to environmental themes, thereby selecting out noise and distilling the most relevant considerations for the firm (Ansoff *et al.*, 1982). What this indicates is that managers are initially interpreting selected information and observations using these environmental themes to shape their decisions and behaviours. They are actively constructing a series of mental maps along the way that are instrumental in making sense of the experience in guiding behaviour and actions, and ultimately in realising the success of the transformation itself. The extent to which the manager has awareness of complexity is critically depended upon the information available and the capability to interpret this information. It therefore does not seem surprising that we found that limited information availability withholds managers of taking action before the Euro is introduced. Particularly, whether the correct decision is made can only be judged after the introduction of the Euro as views are reconstructed as new information becomes available.

Findings in relation to the Euro show that the information gathering distillation process typically can be divided into two levels of environmental scanning;

- Problem solving scanning: there is a compulsory approach that focuses on the technical impact of the Euro
- Analytical scanning: there is an exploring approach that goes beyond the technical process and aims to seek insight into the impact of the Euro on the business

Firms active in the Euro-zone were forced to adopt the currency within a given timeframe. A level of fundamental scanning was based on the compulsory adaptation of the Euro as a currency that needed to be adopted. Response to this compulsory requirement indicated similar types of transition to deal with the basic (technical) issues that needed to be solved along different, context dependent, 'tracks' or 'pathways'. Second, environmental scanning appeared to be encouraged among firms that were financially dependent upon the Euro as a reporting unit as well as those that had a significant level of sales dependency in the Eurozone. We clearly found that the track Euro "awareness" took through the organisation and the degree of transformation it generated differed over time. Different timeframes were adopted for distinctive reasons. Environmental scanning behaviour shaped the attitude towards the Euro with early adopters such as Philips and Nutricia who showed a more complex understanding before the introduction of the Euro. In addition, this resulted in a significant variety of understanding which most obviously showed in specific definitions of opportunities and threats. This diversity of internal understanding is seen as a fundamental argument to degree of adaptability to the external environment. What is particularly important in the context of the Euro is the set of stimuli that are identified by the managers so it can respond to environmental threats and opportunities. Different stimuli identification (through environmental scanning) therefore leads to a different theme definition.

7.1.3 Identification of impact of the Euro

Interdependent linkages between components of disturbance understanding appear to have a cumulative positive effect on attitude, shaping the interpretation and level of anticipation. The level of understanding was often the result of the time taken to prepare for the Euro. This task could be separated into two distinct projects, each with crucial Euro adaptation dates. The first project included the technical implementation of the Euro, whereby the companies were guided by the official Euro time table, with a transitional period between January 1999 and December 2001. The second project was dealing more with the strategic relevance of the Euro based on the

interpretation of the managers. Thus, at Philips, where the Euro preparation process started long before its introduction, the linkages between Euro impact understanding and attitude were strong, consistently pushing them to be a market leader in this area.

However, at Sharp, Pioneer, Nutricia and Nestlé, the linkages between impact understanding and attitude were weaker, as predictions were being made and expectations were being expressed but further effects on market players were not being interpreted as significant at that stage. Impact understanding among these firms was often the result of the time taken to prepare for the compulsory changeover to the Euro. In other words, firms whose intercompany financial traffic was dependent upon the Euro, or those that had a complex IT system which complicated the adaptation process, often took more time to prepare for the changeover which significantly enhanced their understanding of the potential impact of the Euro.

At Kenwood, Hero and McCain, the linkages between Euro impact understanding and attitude were weak, as no significant strategic predictions were being made and concentration focussed on technical implications such as IT adjustments and Euro price calculations. The impact understanding was being judged as not that overwhelming, which either indicated a low level of expectations or a low level of awareness that decreased the search for information which clearly lowered the level of anticipation. The changes in strategic frames associated with the timing of strategic change identified in this study are directly consistent with performance and inertia theories of change which suggest that inertial forces that build in firms over time work to prevent strategic intention until they are surpassed by higher levels of impact understanding (Ginsberg, 1988; Huff *et al.*, 1992).

7.1.4 Improvement necessity

What is clearly evident is that with the passing of time, more information about the nature of the impact of the Euro becomes available and interpretations of managers become more specific. This was most clearly illustrated with a high level of recognition that could be linked back to the firms that started the adaptation to the Euro long before its introduction on a consumer level. However, the patterns of change exhibited in interpretations of the impact contradict Isabella's (1990) findings. Early interpretations before the introduction of the Euro were not vague, but clearly implied a need for only limited response. Managers from this perspective expected that numerous internal and external elements would be unaffected, which would protect them from the potential impact of the Euro. For example, the basis of the uncertainty of expectation was well understood

by Nestlé, Pioneer, Sharp and Nutricia. Other firms such as Kenwood and McCain judged the implications as not overwhelming for their firm and therefore explicitly choose not to respond to the potential impact of the Euro before it occurred. This supports the view of the interpretative model of strategy (see Pettigrew, 1977; Cauwenbergh & Van Cool, 1982) as the emerging product of the partial resolution of environmental and intra-organisational dilemmas. Strategic response to the introduction of the Euro is only likely to take place when the specific ways of change are fully understood. This suggests that a direct link needs to be made between the impact of the Euro and the extent to which the current strategy requires adjusting to this impact.

Thus far we argued that the identification of this link is primarily the result of environmental scanning of managers. Different scanning behaviour in terms of depth and timing resulted in a variation of understanding which significantly shape predispositions that focused attention on particular information. In this context it is important to address the second order question that underlies this argument; Why is there a significant difference of strategic environmental scanning behaviour? We found that the answer to this question is guided by the determination of improvement. This determination appears to be the result of the strategy in use (and its heuristic devices such as operating procedures) before the introduction of the Euro. Initially this influences the timing of environmental scanning. Consequently, those firms that take more time to scan the environment are also likely to define the gap between current strategy and potential impact more accurately. Improvement necessity therefore depends on the interpretation of the manager in what way the firm should act. More depth of scanning is given by those managers that interpreted the gap to be significant. On the other hand, managers that define the gap⁸³ as non significant preferred to wait and see before taking action. Based on this interrelationship between scanning and strategy in use we can define two distinctive types of strategic intention the sampled firms adopted before the introduction of the Euro; (1) Preventive homeostatic intention and (2) Anticipatory strategic intention. We will discuss both types of intention in more detail.

7.1.4.1 Preventive homeostatic intention

We define preventive homeostatic intention as retrospective behaviour that can be characterised by its pending behaviour and the repetition of familiar decisions. It is important to highlight the notion of repetition of familiar decisions as effortful rather than habitual. This is consistent with Weick's proposition that organisations require '*chronic rebuilding*' (Weick, 1979 p. 44).

⁸³ This gap definition can be the result of the fact that the managers sees fit between the current strategy and the future developments. Alternatively, inadequate, low levels of scanning might result in a non-significant gap definition.

occasioned through continual re-accomplishment of processes. As such re-accomplishment is enacted; it may be considered a short term interpretative process. Accordingly we found that seven of the eight organisations revealed a relatively low level of anticipation that indicated an incremental adaptation⁸⁴ with error controlled regulation (Cyert & March, 1963; Stacey, 2000). Strategy from this incremental point of view was particularly concerned with establishing broad parameters, rather than specific actions. In addition, managers primary focussed on compulsory changes in relation to IT and financial issues. Strategic decision making therefore concentrated on pricing issues, such as price point definition and price margin. This was particularly evident for those firms that showed the weakest responses between Euro impact understanding and attitude. Firms with a stronger linkage such as Pioneer and Nutricia showed a more complex understanding, however, this understanding could not be linked back to specific actions. We found in this context that this relative short term view to the impact of the Euro satisfied prevailing expectations; however, longer term problems were clearly suppressed. Despite the fact that it is arguable whether the manager noticed the environmental changes, the most important interpretation of this incremental view was the judgement that the current strategy was robust enough to face the short term changes. Homeostatic intention is therefore the result of explicit assumptions that are driving the low motivation, lack of creative response or other inertial reasons to avoid change. What we would like to point out in this respect is that resistance to change is not as negative as suggested by some authors (e.g. Ansoff, 1991; Bartlett & Ghoshal, 1997) since change is not inherently beneficial for organisations.

7.1.4.2 Anticipatory strategic intention

We define anticipatory strategic intension as a proactive, future-oriented interpretation where predictions play a significant role. Strategy from this anticipating point of view is particularly concerned with designing specific actions to deal with the identified opportunities and threats. This anticipatory behaviour was clearly evident at Philips where the managers interpreted the impact of the Euro as a positive business opportunity to improve asset accumulation and enhance their competitive position through the scale or scope of activities that were generated though historical path selection. In other words, the Euro was perceived as a facilitator or unambiguous signal to reinforce and further develop previous steps taken towards Europeanisation. Philips' information acquisition and processing made managers aware of the potential impact of the Euro

⁸⁴ Incremental learning stresses that organisations adapt to their environment by monitoring their experience and repeating past actions that appeared to be successful, without requiring improbable capacities for securing and processing information

that in one extreme could be mild in potential impact while to the other pole it could be regarded as an environmental 'shocks' or significant disturbance that required action. Philips strategic decision making primarily focussed on the long term predictions of other market player's behaviour at various market levels. This approach clearly showed a significant higher extent to which encouragement took place among the subsidiaries to help their colleagues to move to new paradigms or create a desirable future.

The anticipatory intention revealed significant differences in terms of Euro preparation time, process structure, process complexity, process accuracy, and process speed among many other indicators of encouragement in comparison to the homeostatic intentions. Findings suggest that the most significant device of anticipatory intention is timing. Indeed, managers that completed the interpretation process the earliest where also more advanced in their strategic response. This suggests that the content of strategic change is partly driven by change in interpretation. The significance of this interpretation shift appears to point out if change takes place before or after the introduction of the Euro. Firms are unlikely to make significant changes unless they are certain such changes are required (Dutton *et al.*, 1983). We therefore argue that if the key changes observed as a result of the Euro follow the strategy of the firm, the changes are better understood and could therefore serve to articulate the strategy. In other words, the development of strategic response to the Euro appears to be characterised by the cycling back and forth between interpretation and action. This argument supports the view of proponents of a sensemaking approach to organisational action (Daft & Weick, 1984).

7.2 Consensus after the introduction of the Euro

Summary of key findings

This section presents the consensus building process with a particular focus on causal attribution. We discuss the perceptions of managers on impact causality, degree of impact stability, and impact controllability after the introduction of the Euro. We argue that the type of response to the impact of the Euro is the result of the interrelationship between the perceived stability and the controllability of the cause.

The key findings on consensus building in the T¹ analysis concern;

- Locus of causality; there is a converging understanding of plausible impact causes
- Degree of stability; there is a significant difference in consensus of causal stability
- Controllability perception; there is a significant different causal controllability perception

As a result of these findings we could reveal a significant variation in perceptions of stress [*an indicator that current routines are not appropriate which is based on the perceived impact effect of the Euro*] that can be related to the diversity of timing and response to the introduction of the Euro. So the extent to which the impact of the Euro leads to significant changes in strategy critically depends on the perceived level of stress. Key findings have revealed that;

- Stress perceptions are the result of interpretation rather than the modelling of the impact itself;
- Stress must accumulate before renewal of strategic implications occur;
- Stress is primarily caused when the actual magnitude of the impact of the Euro is seen as unexpected

7.2.1 Post Euro perception: Causal attribution

Strategic actions of the firm before the event are primarily guided by beliefs, expectations and interpretations. Yet, after the event takes place the impact interpretation shifts from a prospective form to a retrospective form (see Heider, 1958; Weick, 1979). Managers experience a certain impact on the organisation and try to understand what is causing this impact. We define the outcome of this process as causal attribution. Weiner (1979) proposed that each cause can be categorised along three dimensions:

- Locus of causality: What is causing the impact?
- Degree of stability: What is the relative duration of the impact?
- Controllability: What is the decision-makers' perception of their ability to directly influence the cause?

The significance of locus of causality is that it 'tells' decision makers the source of impact (Ford, 1985). From this viewpoint there is a widely shared assumption in the strategy literature that the strategy process involves a consensus building process (Lyles, 1981) during which organisational members develop a general level of agreement based on shared understanding. The attention problem that was initially leading to a reduction of organisation forecasting ability and causing diversity of understanding, can afterwards be shifted towards the relevant alternatives as environmental conditions are better understood (Durand, 2003). The new identified causes can be classified by their temporal stability (Curren & Folkes, 1992). Unstable causes are temporary and fluctuating; stable causes are more permanent and unchanging. Hence, the key drivers of downturn of performance are generally managerial perceptions of opportunity or relative

weakness or threat the stability effect has on the current strategy (Hendry *et al.*, 1993). Most importantly managers must be paying sufficient attention to their environment to recognise this impact (Dutton & Duncan, 1987) . Moreover, managers must be motivated to act as they experience stress, tension, or conflict (Milburn *et al.*, 1983). The degree of threat is informed by the magnitude of the downturn and its sustainability: deep downturns fostering interpretations of greater threats (Curren & Folkes, 1992). All downturns may therefore be seen as varying in level of crisis they precipitate, with that level being a function of managers' interpretation.

We therefore argue that *if* managers respond to specific causal attributions critically is the result of prior judgement of the interrelationship between the perceived stability and the controllability of the cause. The influence they have on attribution depends on the information to which decision makers attend. Again the analysis of information depends on the predicted outcome of stability and controllability, the strategy in use and the interpretation of managers themselves.

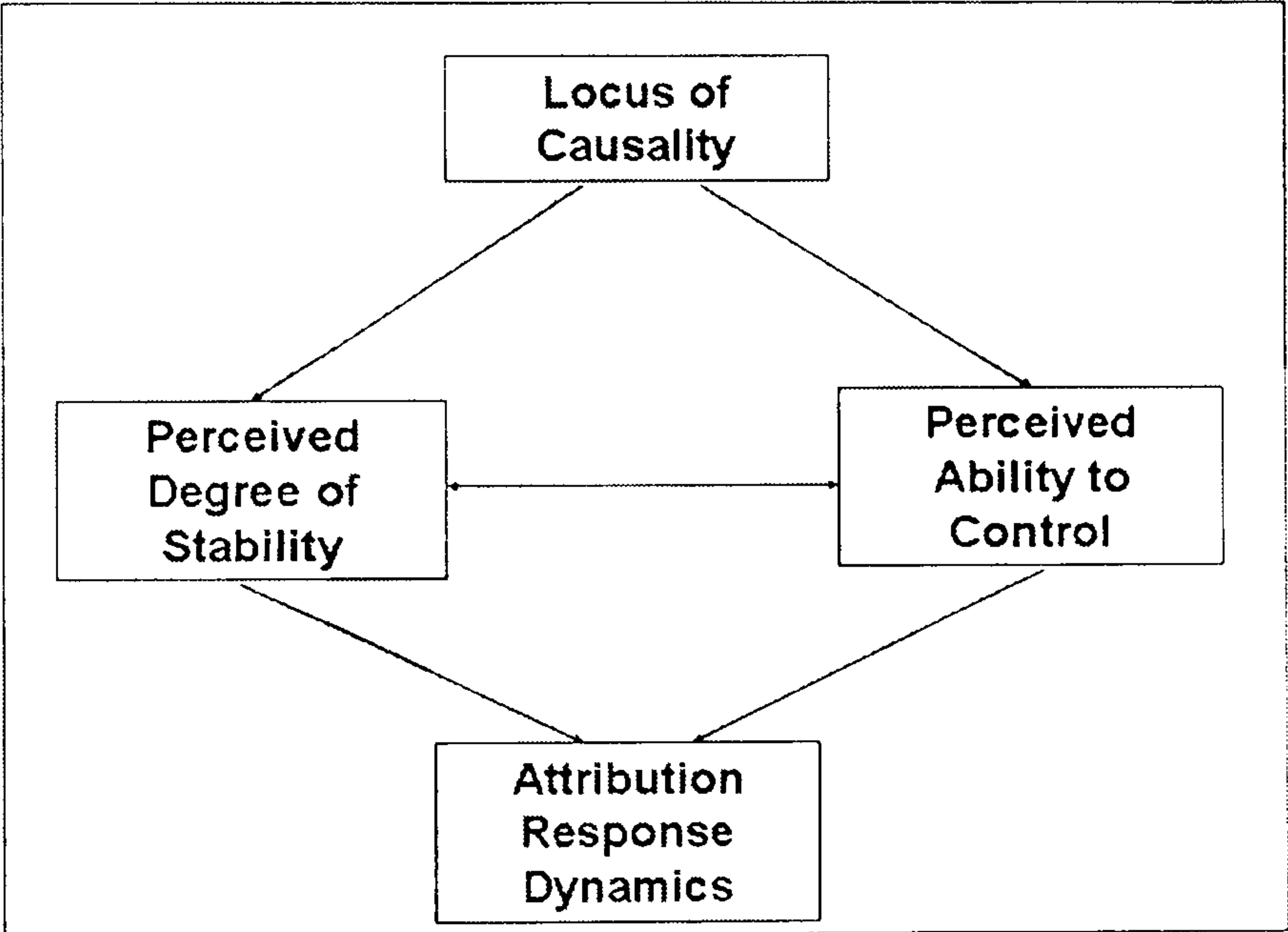


Figure: Prior response perception

Figure 7.2: Prior response perception

In the following section we will discuss each of the dimensions of this consensus building process in more detail.

7.2.1.1 Locus of causality

All eight firms interpret that the most significant impact of the Euro as facilitating the changing role of intermediaries. Two closely linked constructs particularly driving this argument are:

- The internationalisation of retailers and;
- The increasing bargaining power of this channel

The most common used argument driving this development concerns the expectation that the increase of price awareness in the Euro-zone reveals significant implications for retailers that encourage them to broaden their competitive perspective. More specifically, the increasing price awareness is fundamentally interpreted from two different perspectives;

- Current price differences are out of proportion and are therefore unjustifiable which increases the pressure to lower the existing pricing bandwidth in the Euro zone or;
- Current pricing differences are relatively easy to justify, however, justification gives a better insight in international trading conditions.

Findings suggest that the Euro is a significant driver redefining the balance whereby the traditional retail specialists are making place for large stores, specialising in broadly defined sectors and international concept stores. This process is stimulated as retailers identify international growth opportunities through price comparison. This results in retailers moving across borders by applying domestic market conditions to new markets. Hence, the Euro amplifies structural change as it is contributing to the increase in international activity. This implies that retailers are either combining forces or are indeed expanding to other countries to fully benefit from existing price differences. Although we found that a similar movement is expected in the food industry in the near future, at the moment the impact is characterised by its high level of market condition comparative behaviour. Retailers use price comparative behaviour to pressure firms to align the services and conditions in Europe. This is clearly evident with the increase of European contract negotiations. Retailers aim to negotiate better market conditions by using the Euro as a comparative tool.

7.2.1.1.1 Change in causal interpretations

Changes in concepts and linkages related to the impact of the Euro result in a change in meaning and interpretation. In most cases the change begins with incremental changes in causal concepts that clearly shift away from the initial anticipated price impact. For example, Sharp's interpretation of the impact of the Euro dramatically changed over the study period. Before the introduction, the Euro has been interpreted as a technical problem with no significant additional implications.

After the introduction, this rather consistent belief begins to give way for strategic implications during a period in which a number of incremental changes take place. The underlying model is what has been happening as the result of the Euro is depending critically on the behaviour of others, particularly intermediates. The notion of anticipation therefore becomes more complex after the introduction as the strategic implications clearly shift to the interpretation and anticipation of these third parties in terms of actions and time scale. This change in focus represents significant shift in causal interpretations, because at the same time fewer concepts related to internal price opportunities are mentioned, references to outside impact threats begin to appear. The anticipation and response patterns of the food and CE firms therefore focus on exploiting the impact of this external behavioural change on their strategy. What we find is some similarity of environmental change understanding that has a significant different impact on the strategic intent of the firm. However, anticipation has been articulated as the Euro triggered the direction of the strategic change. These results are consistent with other interpretation pattern development studies (e.g. Isabella, 1990; Barker & Barr, 2002).

7.2.1.2 Degree of impact stability

All downturns may be seen as varying in level of crisis they precipitate, with that level being a function of managers' interpretation. Though increasingly dynamic environments make it appropriate to describe renewal as an ongoing activity (van de Ven, 1986), there is an empirical observable distinction between dramatic, status quo changing efforts and other equally important but less dramatic changing efforts that maintain the current trajectory of strategy. We found different levels of motivations to respond resulting in significant variation of foci in their response that indicate an interpreted temporary or permanent effect. This difference in interpretation is at least partly responsible for diversity in timing and response to the impact of the Euro. We therefore discuss both concepts and its findings in more detail below.

7.2.1.2.1 Temporary downturn effect

The key findings on downturn effect show that the interpretation of the impact of the Euro as a temporary effect on the current strategy critically is the result of two interrelated constructs;

- The relative low extent to which the manager noticed the impact or;
- The high extent to which this impact is interpreted as non-stressful.

Although we can not know for certain to what extent firms overlooked the impact of the Euro, we believe that the managerial perceptions not to act should have strong justifications why the firm has chosen not to do so. Moreover, on the longer term a low stress level indicates that less

attention is given to the impact resulting in a lower degree of environmental scanning that might influence the impact judgement, as it is through interpretation of the information that the possibility of latent downturn is identified (see Daft & Weick, 1984). From this perspective we find that McCain is the only firm that does not exhibit the association of the impact of the Euro with non-pricing issues. Despite the fact that there is awareness that intermediaries change their behaviour, they did not demonstrate a further understanding of the implications of this development. This is mainly due to the fact that potential threats such as increasing bargaining power are not perceived as stressful. Main arguments used against these threats are primarily based on the simplicity of the frozen food sector and the position of McCain within this sector.

A relatively non-stressful interpretation is also found at Nestlé, Nutricia and Pioneer. These firms share that the perceived consequence of the changing behaviour of intermediaries is not sufficient to significantly change performance expectations. This perception is based on impact understanding and change interpretation. Based on this understanding these firms expect that the current strategy is robust enough to cope with any additional changes that might occur.

Given these two arguments it appears reasonable to conclude that strategic adaptation is triggered through interpretation rather than the notification of the impact itself. In other words, noticing appears to be necessary; however, managers must understand and interpret its connection to their own activities in order to respond. The general consensus is that there must be a significant modification in understanding before adjustments in the current strategy are made. This provides a particular lens through which the impact of the Euro is perceived and understood. Nonetheless, this does not suggest that managers that only see a temporary effect will not respond to the impact of the Euro. It does suggest however that explicit action will only be taken when the impact itself is revealed to them.

These findings strongly support the idea that stress must accumulate before change occurs (Huff *et al.*, 1992). Early stages of accumulations are therefore characterised by points of view that remain transparent and unrecognised. As long as this level of consciousness is not disturbed it will lead to no additional examination or understanding. In sum, we identified two levels of temporary effect interpretation. The first level is indicated by McCain who is the only firm that interpreted the impact of the Euro as a temporary effect. The second level is represented by the other three firms who are not yet facing a stress level that stimulates them to respond. However, in comparison to McCain these firms demonstrate a higher level of environment scanning which

makes it more likely for them that through the interpretation of information the possible latent (if any) downturn can be identified. Thus, if stress increases over time than renewal is simultaneously more likely in the second level and less likely in the first level.

7.2.1.2.2 *Permanent downturn effect*

Key findings reveal that the impact of the Euro is interpreted as permanent when decision makers' experience or anticipate a detrimental change as a result of this impact. A stressful situation is arising from the mismatch between the demands and opportunities facing the organisation and the capacity of the current strategy to respond to those conditions. These permanent effects engage adaptation even though the signals might be weak (Ansoff, 1977). The responses to these effects are mostly evident through strategic planning, environmental scanning and other forecasting activities to provide basis for such anticipatory actions.

We find that those firms that were already pursuing a European strategy are to some extent reinforced in that approach. At Philips for example, reinforcement takes place through notification and interpretation of arising opportunities and threats that accelerate the current strategic path in a particular direction. In their path selection Philips takes into consideration the realised outcome of the previous European strategy in combination with the likely actions of significant stakeholders in trying to understand what to do next. In other words, these developments point out the inadequacies of current strategy that allows Philips to fine tune their strategy. For example, managers at Philips note that the impact of the Euro is more significant than anticipated in advance. Now that its exact impact is better understood, re-interpretation takes place to improve strategic implications in relation to European consistency, European identity, and European competition levelling.

Secondly, among those firms that kept their options open in the past, Sharp and Hero emphasise that they should now make a greater commitment. Anticipation therefore shifts the attention to making sure that the firm positions itself so that if Europeanisation of retailer behaviour becomes more evident it will be able to respond effectively. Anticipation does not suggest that the firm takes the action to exploit the opportunity, because the opportunity only arises in this case if others choose to take steps as well. However, anticipation from this perspective implies managers taking precautionary steps as they expect that the impact will hit the firm sooner or later. The impact of these changing efforts is evident through radical shifts in current strategic patterns. We observed significant shifts of strategic anticipation at Hero and Sharp. Both firms initially

interpreted the Euro as a shock; its effect afterwards is interpreted as being of more significant strategic importance. Findings suggest that permanent interpretation is the result of the more fundamental changes in the market place on a European level. Both options indicate an identification of the need for European consistency as a result of this impact that implies significant changes in the internal environment.

Based on these two distinctive interpretations it appears that firms that view the impact of the Euro as having a permanent effect are primarily driven by its potential effect on the longer term. In terms of path of development abruption there are some non-anticipated effects whereby changes in the path selection are based on the fact if the magnitude of these effects is taken by surprise in terms of dimension and impact. What it then clearly represents is a rapid and fundamental shift in the basic circumstances of the organisation that requires a redefinition of internal logic. The key idea behind permanent downturn effect is therefore the judgement that a direction for renewal needs to be developed to align the strategy to the new circumstances. Moreover, there is awareness that this process takes time. Steps to significant transformation are taken even though the exact details are still being worked out. This finding is consistent with Quinn's (1980) description of rational incrementalism who argues that firms can not move immediately into a new way of acting. In addition, the firm now must come to grips with implementation, which involves trial and error. This implies that there is a substantial risk of reverting back to previous strategies (Sproull & Hofmeister, 1986). In other words expectations might be high, while the actual effectiveness of the newly (to be) formulated strategy is likely to be low. It should also be taken into account that the environment itself, does not remain static during the process. It is assumed to evolve to more complex states over time (Webb & Pettigrew, 1999).

7.2.1.3 Controllability perception

A recurrent theme in adapting to the Euro has been the notion of strategic awareness, understanding and interpretation of its impact. This identification process suggests that there is a sensing of development of the potential influence of the impact on the current organisations strategy. Yet, this understanding of impact is followed by problem diagnosis to specify the assessments involved (Dutton & Duncan, 1987). This process is critically important for understanding if, how and when managers intentionally respond to the environment. The fundamentals of this identification are based on a prior judgement if the impact is controllable or not (Lazarus, 1991). Perceived control is the believe of managers that they can manage the impact

of a situation. When managers perceive that they can control the outcome, they are more likely to view the impact of the Euro as attractive (Walsh *et al.*, 1988). In contrast, when managers perceive the impact of the Euro as less controllable, they are likely to perceive the impact of the Euro as one with negative implications. Although this suggests a relationship between controllability and the appraisal of the impact (see for example Dutton & Jackson, 1987; White *et al.*, 2003; White *et al.*, 2003), this study suggests that, unlike previous authors, a negative impact perception is not related to uncontrollability. We find that the controllability perception is the result of the interpretation of available information and the anticipation ability of the manager. To better understand the interwoven nature of controllability, environmental scanning and interpretation, we will develop the debate on downturn stability by adding two additional dimensions:

- Internal-external attribution and;
- Global-specific attribution.

The implications of these dimensions to explain controllability is often suggested in the reformulated helplessness literature (for an extensive review see Deuser & Anderson, 1995).

7.2.1.3.1 *Internal-external attribution*

Attribution to internal factors indicates that the manager believes the opportunity or threat can be tackled by reformulating the current strategy. We found in this respect that the level of controllability is the result of impact interpretation. Interestingly, managers that perceived the impact of the Euro as a temporary problem do not necessarily attributed the potential downturn to uncontrollable (external) issues. Instead, these companies do not respond strategically until the impact is interpreted as having a direct effect on the performance of the firm. In contrast, the managers that do interpret the impact of the Euro as having a permanent effect on the firm attribute this impact to internal issues of misalignment that can be solved through strategising. Thus what we find is that decision makers first attribute the impact of the Euro to controllable causes. The extent to which this motivates the manager to regain control clearly depends on their interpretation of the effect on the performance of the firm. In the case of McCain no direct link is being made between the changing behaviour of intermediaries and the performance of the firm. A second cluster of firms interpret the impact of the Euro as controllable but, however, define that no response is currently necessary.

In comparison to the results of other empirical tests on managerial interpretations of specific events (Staw *et al.*, 1981), we find that threats do not necessarily trigger defensive-type of responses but, in the short term, can also lead to no response. Thus the impact of the Euro can be isolated, as the nature of the response can be linked back to the interpretation of this impact. The belief that control can be regained is far more consistent among those managers that perceived the impact of the Euro as permanent. By engaging in related activities, these managers suggest that they can engage in the activity in which they have lost control. For example, the Philips, Sharp and Hero cases suggest that although control cannot be regained directly, clear attempts are made to regain control by making the environment more predictable, which most evidently shows in their significant increase in strategic planning after the introduction of the Euro.

Overall it seems reasonable to suggest that these interpretation differences can be linked back to the achievability and the desirability of a change the current strategy. One explanation for its different expectations can be based on the state of the strategic process during the changeover to the Euro. An important factor in this respect is the moment the manager sensed the Euro as a trigger to entail diversification and confrontation of views. This indicated different motivation levels that appears to be linked to different timing patterns. The notion that decision makers attempt to restore perceptions of control suggests that movement along the controllability dimension is temporally sequential. Downturns are at first attributed to controllable causes. At this stage there is a relative low level of interpretation. However, it can be beneficial if conflicting views lead to consideration of critical evaluation of alternative viewpoints, and initial confrontation of views is consolidated later on in the process if necessary. Further on in the controllability dimension sequence we find firms that are going through trial and error processes to regain control in the longer term. It is important to note that the attempts taken do not actually restore the control, however, it restores the managers perception of their ability to control. At the most developed stage we find Philips who aimed to regain control from the start of the process. We did not find that commitment to a certain course of action for this firm that anticipated the event has blocked accommodation to changing conditions, as the changes have strengthened their previous degree of interpretation in addition to the increasing scope since the introduction of the Euro. Further research however, should investigate if the degree of consensus increases further over time.

7.2.1.3.2 *Global-specific attribution*

The manager might attribute failure to specific factors that raises the expectation that response only needs to be applied in relation to those factors. In contrast, global attribution refers to a wide range of factors for potential failure. Whether attribution of impact will lead to specific or global failure depends significantly on three distinct but interrelated constructs;

- Degree of stability,
- Anxiousness, and;
- Magnitude interpretation.

Stability refers to the duration of the impact and anxiousness refers to the level of perceived stress as a result of the impact. Magnitude interpretation refers to the outcome of the first two constructs and outlines the question; how much harm will result from the impact of the Euro? In other words, what opportunities and threats are defined by the manager as a result of the impact? From this perspective we find two levels of Europeanisation of magnitude that can be linked to subsidiary specific or European attribution, indicating a proactive or reactive response pattern.

In this research, specific (reactive) attribution is an interpretation issue that is characterised by the simple causal maps that are made between the impact of the Euro and downturn perception. In addition, specific attribution is also characterised by a relative insignificant disruption of the Euro on the continuity of the existing strategy. Disruption is perceived at a local level. Firms from this perspective attribute the impact of the Euro to pricing issues in particular. The implication of price transparency is less significant in the food industry, due to the lower degree of price comparability. Interestingly, both Pioneer and Kenwood reveal an increasing pressure as a result of the changing market environment; however, both chose not to respond during the period studied. A similar approach is followed by Nutricia and Nestlé, who are both aware of the changes but that its actual impact is not as strong as anticipated in advance. Most managers that attribute the impact to pricing issues, with the exception of McCain managers, reveal an awareness of additional changes.

Conversely, the degree of learning is assumed to be incremental and will only have a major effect if the wider changes also happen. For instance, if price transparency increases the awareness of intermediaries and stimulates them to internationalise their actions, then these firms might be exposed to additional pressures. So far exposure has been not significant enough for these firms to attribute the impact of the Euro to these additional pressures. On the other hand, global

(proactive) attribution is characterised by a more significant change understanding as the interpretation of behavioural changes amongst intermediaries result in new linkages that can be linked back to the impact of the Euro. Managers from this perspective also attribute the initial changes to price related issues; however, they clearly reveal additional attributions as a result of the environmental shift. For example, Sharp and Hero expect that the identified market changes will create pressures for them to act on a more European level. As a direct response to the expected increase of comparative behaviour of intermediaries, consumers and competitors in Europe, significant adjustments to their current strategy are required.

To sum up, it seems reasonable to suggest that managers test and experiment with a construed reality that moves beyond the traditional boundaries of past sensemaking. Thus, characteristics of collective interpretation are still in search for consequences. From this perspective we find significant differences in active seeking that can be linked back to motivation and anxiousness. Firms that do see impact implications experience a more significant magnitude that drives to find more advanced solutions. For these firms we clearly notice a shift in interpretation. Firms that limit the implications to specific issues reveal a much lower magnitude that holds them back from in depth environmental scanning at this stage. We assume that this interpretation and behaviour will shift as soon as the magnitude increases for these firms. We therefore conclude that it appears that collective interpretations move from an unformed and tentative to well-constructed, well processed viewpoints at significant different speeds. This might indicate that a fuller understanding still needs to be accomplished by those firms that do not see additional implications at this stage.

7.2.2 Transitory states of consensus

Prior to continuing the debate on impact response patterns it seems to be important to combine the first two sections of this chapter to outline the transitory states of consensus. Pre-Euro findings have suggested that most managers adapted a retrospective behaviour that could be characterised as a short term interpretative process aiming to prevail expectations. Most importantly, the managers judged the strategy in use as being robust enough to deal with short term changes. Managers at Philips, however, adapted a longer term view and predicted some permanent controllable effects that required further action to align the strategy in use to the anticipated market changes. After the introduction of the Euro the impact causality is better understood, resulting in a converging understanding of plausible impact causes. Nevertheless, the impact of this cause results in variation of perception. Most of the managers identify a mismatch between

current strategy and the impact. However, only in a few cases this results in the consensus to adapt the strategy in use to this environment. The following figure 7.3 indicates the shifts and reinforcements in states of consensus that could occur as a result of the changing perception over time;

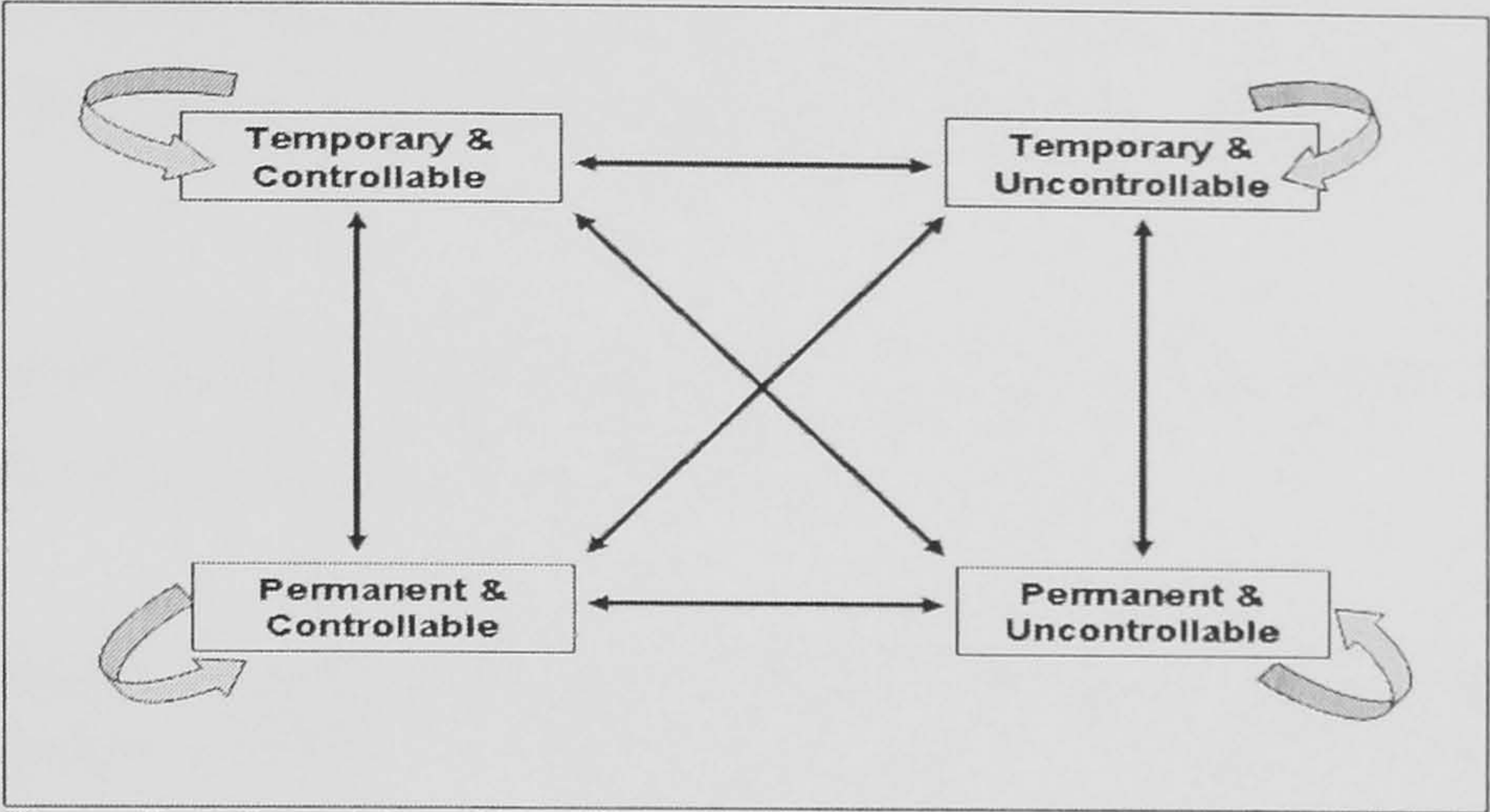


Figure: Transitory states of impact consensus

Figure 7.3: Transitory states of impact consensus

The consensus building section has revealed that decision makers first attribute the impact of the Euro to controllable issues. This indicates a shift or reinforcement to controllable states. When the impact is interpreted as controllable decision makers are primarily concerned with the extent to which they should confront the impact. The extent to which this motivates the manager to regain control depends on the predicted degree of stability. If the impact is seen as temporary it is likely that they adapt an incremental approach that opts to defend the current domain which might result in no response. If the impact is seen as permanent it is likely that they adapt a more rational approach that aims to manipulate the current domain by fine-tuning or renewing the current strategy.

7.3 Change in response patterns after the introduction of the Euro

Summary of key findings

This section aims to link the belief systems, representing the concepts and cause-effect relationship employed by the dominant coalition of the firm, with the strategic behaviour of the firm, which refers to the actual patterns of response. Different patterns of alignments of belief systems to the impact of the Euro explain how anticipation and interpretation play a role in the strategising function (Mintzberg & Waters, 1985). Findings suggest three types of response patterns that Miles (1982) might call domain manipulation:

- Domain defence; No drastic changes in belief systems, other than a conceptual refinement or strengthening of existing cognitive maps.
- Domain offence through fine-tuning; Some drastic revisions in belief systems in response to detected changes that create opportunities for improvement.
- Domain offence through new domain creation; Drastic revision and reversal of belief systems in response to detected changes which threaten the central goals or survival of the firm.

The type of response pattern that is adapted is a logical interrelationship between cause-effect belief systems, strategic orientation, and organisational inertia.

7.3.1 Post Euro adaptation: Variation of strategy alignment

The causal attribution section has revealed that internal factors such as information-processing constraints, organisational history, and external factors such as legal and fiscal barriers guide, and to an extent lock-in the manager's belief system to certain interpretations and predictions. This resulted in a variation of consensus explaining *if* managers were going to respond to the impact of the Euro. In this section we will continue this debate by examining *how* firms are responding to the impact of the Euro. According to the belief system, response is likely to occur when the controlling dominant coalition is convinced that there is an obvious (controllable and permanent) opportunity or threat that requires further actions. However, response does not only relate on individual factors. Each firm's adoptiveness will also be determined by a variety of organisational factors, which include the availability of slack resources, the level of internal complexity, and the degree of centralisation and formalisation of decision making. In other words, the type of change that is occurring is to some extent bound also to this strategic orientation and its related organisational inertia (Chakravarthy, 1982). We will define both concepts and explain its context within this study.

7.3.1.1 Variation as the result of strategic orientation

Adaptation patterns often refer to significant changes in organisational strategy and structure (Miles & Snow, 1978; Miles, 1982). Several authors (e.g. Miles & Snow, 1978; Miles, 1982; Miller & Friesen, 1986; Porter, 1980) have tended to concentrate on the development of strategic orientations that rate these patterns in terms of organisational domain change. This posits that over a period of time successful organisations develop a systematic, identifiable approach to environmental adaptation. This embodies the approaches taken by businesses with differing perspectives on the competitive environment to address three types of problems: entrepreneurial

problems that deal with the definition of market product domain, engineering problems involving the technical system, and administrative problems arising from structure and process issues (see adaptive cycle Miles & Snow, 1978). These intricately interwoven problems highlight the various areas where an organisation might be affected by when taking a particular strategic decision.

These views of strategic adaptation provide useful analytical metaphors, however; we contend that they overly depict adaptation content in terms of static states. We therefore conquer with the notion that organisations are not rationally moving from one static state or stable equilibrium to another, but instead are moving across dynamic and complex patterns in order to adapt to the environment (e.g. Brown & Eisenhardt, 1998; Bartlett & Ghoshal Sumantra, 1998; Miles *et al.*, 1997; Pettigrew & Whipp, 1991; Tushman & Romanelli, 1985). As the empirical result show, there is the belief system that firms should pursue multiple (product) strategies at one point of time to deal with the impact of the Euro. These are likely to be altered and converged overtime, which arguably can be a trigger towards changing the strategic orientation. However, focussing on a single causal attribution relationship, as one of the patterns among many other changes, does not allow us to indicate the extent to which organisational domains are affected by the impact of the Euro. However, it does allow giving a better insight into what elements of the adaptive cycle (Miles & Snow, 1978) are affected in which ways.

7.3.1.2 Variation as the result of organisational inertia

When planning to alter product-market domains, the manager will to some extent be limited in his viewpoints as the strategic orientation provides a particular repertoire of idiosyncratic collective actions that are based on past experience of problem solving (e.g. Nelson & Winter, 1982). It is often argued that organisational success is marked by achieving fit or consistency between this strategic orientation, on the one hand, and internal and external environment on the other (e.g. Tushman & Romanelli, 1985). In other words, organisations establish and maintain critical competences based on this consistency. As a result, managers face organisational inertia that often hinders to implement and support (e.g. structure, controls, coordination of power etc.) a new belief system. We therefore argue that there appears to be a distinct line between design of a belief system and the system or structures evolved to execute these activities. We assume that a given structure is capable of executing only a highly constrained set of response patterns.

Moreover, different designs and different element of design among the cases consequently result in different ways and varying degrees in which firms adapt to the impact. In a way this implies

that the response is automatically contingent upon the structure of the firm. Alternatively, structural inertia needs to be overcome in order to implement these changes. Even so this will not lead to complete overhauls of the current strategy as the diffusion of this organisational innovation will be extremely slow compared to the diffusion of for example technological innovations (Armour & Teece, 1980; Quinn, 1980).

7.3.2 Strategic development framework

Figure 7.4 provides a plausible cause interpretation schema for understanding the interrelationship between locus of impact and firm-level response patterns. It will be used as a framework to discuss the strategic development of each firm after the introduction of the Euro.

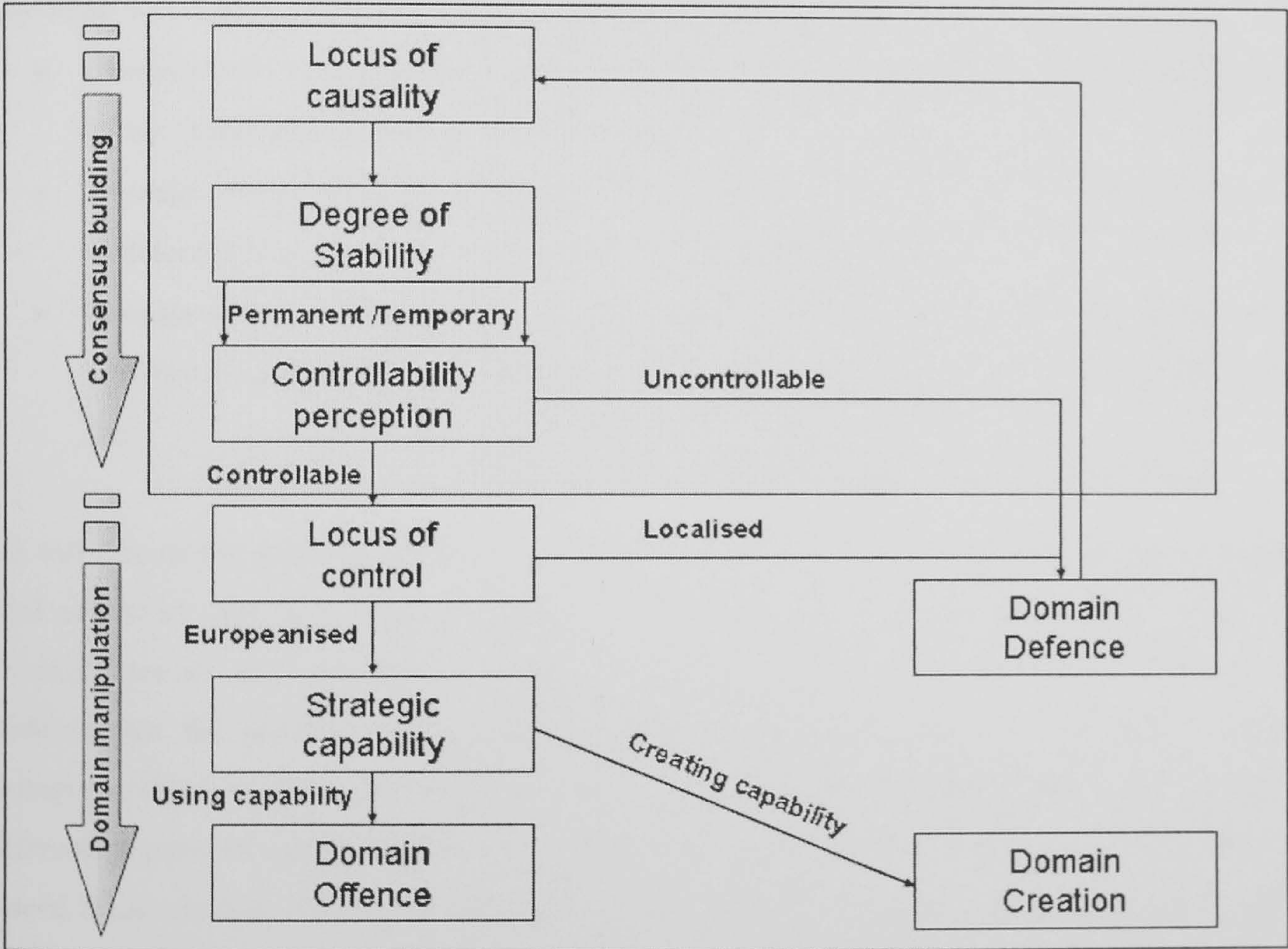


Figure: Plausible cause interpretation schema of the impact of the Euro

Figure 7.4: Plausible cause interpretation schema of the impact of the Euro

7.3.3 Locus of Control: Strategies for domain manipulation

Response patterns seem to be dynamic and complex in character concerning their emergence and development (see also Tushman & Romanelli, 1985; Pettigrew, 1985). It appears that the complexity that the organisation chooses to adapt to is determined by its product-market strategy. Obviously, it would be impossible for firms to cope with the entire complexity of all dynamics

associated with the environment. Thus the dynamism the firm chooses to cope with is a choice of the decision makers. Effectively what managers are doing when responding to the impact of the Euro is evaluating to what extent a product-market strategy is affected by the identified causal attribution. Each product-market strategy is going through a rational and independent choice by a clear and certain belief system in which the impact of the Euro is faced. In doing so a firm can simultaneously use different product strategies to deal with different facets of the causal attribution as some product-market strategies might be affected to a higher extent than others. Nevertheless, when change is required it appears that the same decision is being made. We therefore found that there is a predominant strategy within every firm, which dictates whether it will avoid, react or create to respond to the impact of the Euro. Findings indicate that domain-adaptation is occurring in three different modes (Miles, 1982);

- Domain defence; No drastic changes in belief systems, other than a conceptual refinement or strengthening of existing cognitive maps.
- Domain offence through fine-tuning; Some drastic revisions in belief systems in response to detected changes that create opportunities for improvement.
- Domain offence through new domain creation; Drastic revision and reversal of belief systems in response to detected changes which threaten the central goals or survival of the firm.

We will discuss the extent to which the perceived impact of the Euro created tension between full local autonomy and the control structures in the organisation. In particular, we will consider whether there are any structural role changes within the HQ or subsidiary that can be used as evidence that the previous decision making authority between HQ and subsidiaries (control strategy) is changing since the advent of the Euro. We find that different belief systems suggest different degrees of structural control between local (autonomous) and European (centralised). Indeed these choices may range from attempts to manipulate environmental features to make them more consonant with organisational goals, strategies, and structures to the choice of the environments in which an organisation wishes to operate. In some firms, managers minimise the constraints on adaptation and manoeuvre their organisation through or around environmental obstacles into domains more abundant in resources and opportunities. From this perspective, the actual response depends on the firm's belief system combined with both the strategy in use and level of organisational inertia.

7.3.3.1 Localised Control: Domain defence

We define a localised approach as referring to autonomous affiliates which are more active and sentient agents, able to develop, and implement their own variant of a local strategy that will contribute as required towards overall organisational objectives. We view this response pattern as domain defence (Miles, 1982) as these managers aim to preserve or restore legitimacy to an existing domain. This localised approach is therefore not necessarily a static approach. Dynamism occurs in a variety of ways in which local agents can help to increase the vibrancy of corporate strategy at the local level (Bartlett & Ghoshal, 1986). The key element in this context is the judgement that the identified impact of the Euro does not have a (negative) effect on the European strategy of the firm. In other words, the 'old' strategic frame is likely to hold concepts corresponding to the impact of the Euro. Even if managers are aware of potential changes in the business environment, other indicators are needed before strategic change is enacted. At the subsidiary level it may even be that managers are not completely open to new ideas as only few direct connections to subsidiaries performance are made. Moreover, disagreement may exist about the cause and its effect, which delays the formation of organisation consensus on the way to respond.

These arguments suggests that the timing for strategic change are directly consistent with stress and inertia theories of change which suggest that inertial forces build in firms over time and prevent change until they are dominated by higher level of stress (Huff *et al.*, 1992). Underlying conditions of sensemaking add to the domain defence approach of Kenwood and Pioneer as they judged their current strategic frame as robust enough to incorporate the identified issues of impact. Although both firms stressed some concern about necessary consistency (and hence coordination) across Europe, both argued it was too early to respond further to the impact. Indeed, historical aims to align the strategy to global trends in the CE industry provided some evidence that Pioneer was likely to cope with these issues in the short term. At Kenwood however, it appears that the limited capability to process complex information in an efficient manner significantly influenced the company's viewpoints on European coordination at this stage. Localisation of decision control in the food industry can be attributed to the importance given to an orientation based on the local business, cultural, and political environment. At Nestlé, the nature and durability of this approach was not questioned after the introduction of the Euro. On the contrary, local alignment of specific issues emphasises the essentials of this defensive strategy in the Eurozone. Nutricia and McCain demonstrated the same degree of local freedom which

allowed the subsidiary to develop a partial or complete strategic response to the perceived impact of the Euro that met the local pressures, needs, and requirements.

To sum up, a domain defence approach is adopted when the collective level of stress is low. This low level of stress can be the result of the drivers of motivation that indicate that no significant gap is identified between the current strategy and the required fit with the environment. This can be the result of an interpretation that the impact is in line with the current strategy, so no significant negative impact is identified. On the other hand, it might be that the issues of fit itself had no significant triggering effect [*i.e. it is not an issue of complexity the manager chooses to cope with*]. Most importantly, both issues of motivation indicate that environmental fit is not being seen as crucial at this stage as nonhuman elements such as structures, systems, procedures, routines, and strategy are interpreted as not significantly affected.

7.3.3.2 Europeanised control: Domain offence

We define an Europeanised approach as an integrated network of European subsidiaries that are merely distant tools of corporate management, reacting as ganglia to impulses sent downward through the bureaucratic system (e.g. Doz & Prahalad, 1981). We view this response pattern as domain offence (Miles, 1982) which can result in fine-tuning of the current strategy or creation of a new strategy. The former refers to maintenance and improvement, the later refers to supplementing current domains with new domains by adding or replacing activities. The dynamics of domain offence suggests that all key managers understand and accept the basic strategic posture. Even when decision makers may disagree about the causes and its impact, there seems to be some sort of centralised power that supports a given position. What this indicates is that domain offence within large organisations can be associated with single loop learning and centralisation of coordination. To implement a domain offensive European strategy, it may be necessary for the EHQ to influence the direction of the subsidiary strategy, indicating a shift in power within the organisation towards a more ethnocentric mechanism (Birkinshaw, 2000; Birkinshaw *et al.*, 2000).

Among the firms where domain offensive strategy was suggested we find that the type of offence response to regain control at a European level can be linked to the strategic frame in use before the change takes place. Prior to strategic action taking place, these firms need to undergo certain internal changes to align the strategy to the new market circumstances. Implementation of these changes typically go through interrelated adaptation phases that can be characterised as:

- Power orientation;
- Change of power relation and;
- Power balancing

The first phase refers to the consensus that the effect of the impact is permanent and controllable. This phase is interpreted as the trigger to change. Hero and Sharp were respectively at a late stage of power orientation and at an early stage of changing the power relationships within the European network. Managers in these two firms point out the necessity of European configurations to achieve distinctive patterns of strategic change that indicate the creation of an appropriate structural context. This re-patterning finding is somewhat similar to Doz and Thanheisers' (1993) shift of 'minor or major transformation'⁸⁵. This study suggests that only a finite number of stable strategic changes are feasible, and that transformations are not as rigorous as found by Doz and Thanheiser (1993). There is an emphasis on structural re-patterning to reconfigure the European network and create internal linkages that help to improve external relationships. This creates more effective communities of practice on a European level in order to respond to potential behavioural shifts of stakeholders.

Alternatively, structural re-patterning at Hero reveals an adaptation of domain offence through new domain creation. The strategy in use before the adaptation involved subsidiaries which were significantly differentiated having been build up over time from- their own unique capabilities. We should stress however that the suggested network changes were taking place at a sub-subsidiary, typically product group division level. This suggests that domains were added to the current strategy, replacing some old domains and creating new ones. This finding is consistent with Miles (1982) who suggested that domain manipulation is often happening in combinations.

Contextual domain changes in the case of Hero are therefore referring to a dynamic approach to European initiatives rather than European strategy. Domain manipulation at Sharp is happening at a more developed stage. Minor changes to European structures are made as the conflict resolution is more a search for coordination whereby control needs to be appointed to the appropriate divisions within the current network. Domain offence from this perspective refers to a expansion of current domains, by replacing old domains. Domain offence in this case leads to strategic reorientation in terms of strategic shifts and adjustments that achieve increased efficiency on a

⁸⁵ Firms that undergo strategic change might need to alter their structure in order to achieve this. This structural transformation might be minor (adjustments in structures and processes) or major (reorganisation)

European level rather than complete turnaround strategy (see also Starbuck & Hedberg, 1977). In comparison to these two cases, Philips is clearly at a more advanced stage of European development.

Although changes in European strategy could suggest some small adjustments in the power orientation, there is a focus on domain offence through fine-tuning to optimise the balance between subsidiary autonomy and EHQ control. This does suggest that for some decisions full control is given to HQ, resulting in the exclusion of subsidiary managers.

7.3.4 Strategic capabilities

Strategic response seeks to ensure the continuous adaptation of the goals and strategies of the firm to the changes in the environment. Successful adaptation is possible if managers expend some of the current resources⁸⁶ or invest in new resources when building new strategic positions (Lorange, 1980). The above discussion on domain offensive response patterns has revealed that domain offence in this research refers to a higher degree of centralisation through an increase of formalisation, a restriction of some communication within subsidiaries and the development of new ones. Resources and capabilities⁸⁷ such as high cohesion and centralised power contribute to attribution consensus. If organisations lack these characteristics to respond to the effect of impact, managers are likely to create them as soon as they expect a permanent and controllable outcome. While some firms can modify existing resources other need to create new resources to deal with the impact of the Euro. These resources are complex and path dependent on the accumulation of, and interaction between, resources such as physical assets, technologies and people (Marcus & Nichols, 1999). Typically, the internal structures and systems seem to be altered most rapidly; more time is required to convert closed mindsets to the need of change which clearly is the result of different expectations and beliefs.

Corresponding to the availability of resources are two distinct domain offensive purposes. The first purpose aims at preparing the firm for strategic responses to future environments; whereas the second purpose seeks to fine tune the strategies for better fit with its environment. The former implies that internal structures and systems need to be renewed or replaced to fit the needs of the environment. This renewal takes place through the creation of new capabilities, or through extensive alteration of existing capabilities. This alteration process takes time and significant

⁸⁶ Freestanding assets that can be evaluated in isolation from other freestanding assets

⁸⁷ Organisational abilities to integrate and coordinate resources (Teece *et al.*, 1997).

effort as the resources are not available for immediate use. The later refers to an adjustment of the current strategy to improve the fit with the environment. Resources from this point of view can be generated by paying careful attention to the firm's efficiency. These resources are available for immediate use to support the adjustments. We will discuss the above response patterns in more detail.

7.3.4.1 Creating new capabilities

To create new strategies the managers need to pool their various business, functional and personal expertise together to make choices that shape the strategic moves of the firm (e.g. Eisenhardt, 1989b; Fredrickson & Mitchell, 1984; Judge & Miller, 1991). A reconfiguration of existing organisational skills, however, becomes much more complex when the requirements of a changing environment go beyond the current capabilities to renew competences. This reorientation appears to be the case when the changing environment requires a strategic shift in articulation from the national to the international level. The multifocal approach (Prahalad & Doz 1987) indicates a shift in the domains of competence. When perceptions of the impact of the Euro are shared then the impact itself changes these orientations, however, the opposite is true when managers do not share the perception. What this indicates is the complexity to define and implement managerial mechanisms to change the power relationship within the firm causing friction between global operations and their subsidiaries (Prahalad & Doz 1981; 1987; Picard, 1997)(Picard, 1997; Prahalad & Doz, 1987). Findings indeed confirm that European articulation of the Euro impact is significantly limited when there is a high degree of subsidiary autonomy. The 'control vs. empowerment' dilemma supports both arguments for explicitly articulated strategies. Findings therefore reveal the need for an integration of two, previously contradictory theories under the umbrella of one, more all-encompassing theory (see also Ansoff, 1987 for a discussion).

Development of this approach is clearly evident within Hero, where managers argue that different levels of environmental variation (impact pressure) require different degrees of decision making comprehensiveness. The development of such an approach is taking place at a division level. The focus is on product concepts that are likely to face pressure at a Eurozone level. For example, in a collective decision of Eurozone active subsidiaries, Hero appointed European product development responsibility for a specific product group to each of the Eurozone subsidiaries. The aim of this initiative is to create consistency of European concepts and to add European concepts to the current portfolio by internationalising local concepts with European potential. The

recognition that strategic capability creation is influenced by multiple factors such as stakeholder's pressure is suggesting a '*contingency*' approach, whereby elements of European consistency are carefully added to the existing local approach. For these 'European' product concepts it is found that the current routines are likely to be less appropriate which stimulates the exploration of alternative routines. Product-level knowledge shapes a schema that guides managers in defining problem spaces, identifying possible solutions, and predicting the performance of alternative strategic behaviour in a specific area.

In the longer term this specific problem solving technique is likely to influence the strategic behaviour of the firm as a whole (Harris, 1994). These findings reinforced the importance of maintaining both efficiency and flexibility capabilities (Cyert & March, 1963; Nelson & Winter, 1982). We concur with the view of convergence as defined by Tushman and Romanelli (1985) as '*relatively long time spans of incremental change and adaptation which elaborate structures, systems, controls and resources towards increased coalignment.*' (p. 173). The longitudinal development of Hero's strategic behaviour can therefore be viewed as beginning with a series of strategic behaviours as part of the shift from the previous stable generation mechanism. The 'European' initiatives represent a pattern that directly confronts the product strategy with the complexity of the (Euro) environment. It also points out that a belief system can result in multiple strategies as response occurs in particular cases.

What this response pattern demonstrates is the fact that the concept of strategic 'fit' with the environment is more problematic than assumed by others (e.g. Miles & Snow, 1984; Quinn, 1980). 'Fit' is a combination of many responses to complexity, of which the impact of the Euro is one. From this point of view we can conclude that response pattern might contribute to strategic 'fit'. A formulation of what fit needs to be established is significantly influenced by the extent to which individual managers perceive and understand this fit. The overall process of strategic behaviour is not predetermined but shaped by the knowledge and information acquired. This argument is transferred into different levels of understanding, predictions and expectations which can be explained through the fact that strategic decisions are made under conditions of limited rationality, uncertainty, and ambiguity (Ansoff, 1965).

7.3.4.2 Configuring existing capabilities

In this research we find that firms that were already pushing toward higher integration and lower local responsiveness are encouraged to go further in this direction. As a result of unique and

idiosyncratic processes that emerge from path-dependent histories of the firm (Teece *et al.*, 1997), it appears that among those firms reinforcing their existing developments, there are likely to be cushions in terms of slack resources (Cyert & March, 1963). These resources reduce the impact of external shocks, fuel adaptive responses to them, and most importantly foster learning that increases the managers understanding. The existence of slack resources (Meyer, 1982) provides organisation capabilities that enable to act in ways that are not (yet) possible for other organisations. This possibility to respond directly to the perceived loss of control results in the belief that threats are being countered more easily. This in turn stimulates managers to explore the potential opportunities more fully. The perceived buffer to uncertainty as experienced by the managers may increase the willingness to take more risky actions in response to the perceived impact. This partly explains the proactive behaviour of these firms. In other words, slack resources enable key managers to implement their decisions (Cyert & March, 1963; Meyer, 1982).

From this viewpoint we define two levels of facilitation that can be associated with pro-action which will be magnified in organisations with higher levels of slack. Typically these levels are classified as either '*available*' or '*unavailable*' slack resources for discretionary use (Nohria & Gulati, 1997). Available slack resources are slack resources that are immediately available to an organisation to support initiatives. Unavailable slack resources are those embedded in the organisations structure or otherwise committed to other processes and thus not available for immediate discretionary use, however they can be applied in the longer term. As it is arguable to what extent slack resources are available, we assume that those firms that made significant steps toward Europeanisation in the past have, through previous experience, developed the ability to respond to various demands from the dynamic European environment. This flexibility increases both the potential for adaptation as a range of strategy options for environmental change can be addressed and the speed of response.

Following Chakravarty's (1982; 1986) argument of adaptation to environmental change we can point out if slack is available and how fast it can be applied. From this perspective we found that Philips is improving overall goodness-of-fit by exploiting the current environment to improve performance. Current steps point to further formal institutionalisation of this European approach. Most evidently it leads to a fine-tuned relationship between the company and the environment. Early actions in the strategic behaviour design process are taken within the established frame of reference. Actions taken in a peripheral part of the organisation are not considered as a critical

challenge to the establishment. On the contrary Philips experiences the pressure as a stimulation to explore the opportunity. For example, Philips actively uses the Euro as an internal and external benchmarking tool to compare subsidiary strategies and analyse competitors' behaviour across the European market. The anticipated impact of the Euro ex-ante concentrated on the direct impact on the business that rose as a result of the compulsory transaction in the new currency. Anticipation of third party behaviour was not yet actively in the picture until after the introduction. However, this unpredicted effect can be relatively easily tackled as the availability of slack allows Philips to rapidly develop strategic options to pursue this effect offensively. In the short term this resulted in fine tuning that removed European inconsistencies within the current frame of reference. For example, product portfolio and its related marketing mix elements were harmonised to a higher extent within most of the product groups of the company.

In comparison to Philips, Sharp is concentrating on improving capabilities for adapting to uncertain and unknown future environments. The purpose is to exploit long term opportunities to gain long term improvements in performance. Consequently a more significant change needs to take place as the slack resources first need to be modified before these can be invested in new strategies to adapt to the future environment. In other words, managing the slack resources is the key in this adaptation process. What this requires is an old fit being replaced by a new improved fit. The time necessary to develop is significantly delayed as old assumptions of autonomy will survive and be incorporated into new ones. For example, portfolio harmonisation that was activated some years ago is still not fully adopted by all Eurozone subsidiaries. Some successfully upgraded the portfolio, while others combine the upgrading with previous products, diminishing the upgrading effect. This illustrates that a strategic development is a process that represents a long-run adaptation. Major shifts in strategic capability are the outcome of new patterns of development. In the early phases only small adjustments are made to adapt to the new environment. For example, as a direct result of price transparency Sharp has launched a project that compares prices in Europe and makes adjustments if necessary. Although the initial changes might not be of major significance, we expect that accumulation of small changes overtime increase the experience that triggers additional changes towards consistency.

7.4 Conclusion

This chapter has further analysed and discussed the findings from each level of analysis as a series of building blocks leading to the overarching findings. Given the richly detailed approach of this study, there are numerous small findings. However the main findings before the Euro was introduced on a consumer level were:

- The timing of strategic adjustments is significantly affected by managers' interpretation of the environments impact on the firm that is understood based on information gathering behaviour;
- Interdependent linkages between understood components of the likely disturbance appear to have a cumulative positive effect on attitude, shaping the interpretation and level of anticipation.

Focus is initially on the short term to satisfy prevailing expectations. Only when the effect on performance exceeds expectations does the Euro act as a trigger to articulate the strategy itself, which appears to be characterised by the cycling back and forth between interpretation and action. Thus such findings complement extant research on strategic adaptation to unfamiliar events and make a contribution to unpacking the black box of interpretation processes, an under-researched area (Barr, 1998; Lant & Mezias, 1992; Tripsas & Gavetti, 2000). Specifically, it appears that managers are motivated to take action as a result of the creation of understanding when this understanding is linked to an improved fit of the strategy. This process seems to be less dependent on previously-held interpretations [*i.e. Europeanisation efforts*] as the Euro is pre-dominantly approached as a standalone issue with specific belief systems.

At a second level of analysis, after the introduction of the Euro, the identification of four interrelated constructs outlined the interplay between interpretations and response patterns that contributed to:

- Enhanced comprehension but despite the converging impact understanding there remain significant differences in views about causal stability and causal controllability;
- A further understanding of the interrelationship between locus of impact and strategic movement.

Together these approaches provided a more dynamic explanation of how interpretations evolve over time. The key shifts in interpretation resulted in three main findings:

- The notion of anticipation has become more complex as strategic implications clearly shift to the interpretation and anticipation of thinking and acting of intermediaries.
- Experienced loss of control is articulated through interpretation, and its related stress, rather than the understanding of the impact itself. Regaining control only occurs after the collective interpretation of stress has accumulated, or when the magnitude of the impact is taken by surprise.
- Reinforcement only takes place through consistent articulation at a European level. Implementation of these changes typically go through three interrelated adaptation phases that can be characterised as; Power orientation; Change of power relation and; Power balancing

Findings from each level of analysis were brought together so as to provide an insight into how the response patterns evolved over time. This revealed the continuing and varying tension between the anticipated impact of the Euro on the behaviour of external stakeholders and the forces to resistance to change within the firms. These patterns of change could be divided into three levels: Primarily reactive; proactive through change of power relation; proactive through change power balancing. What pattern of change was followed critically depended on the perceived balance of power between the local and the European level. A reactive response pattern occurred when the perceived impact was interpreted as temporary and controllable, indicating that the current strategy was found robust enough to stand the perceived impact. Power relation changes took place when reorientation led to need to articulate the strategy at a more international level. The development of this approach was shaped through the exploration of alternative routines which were carefully added to the existing approach and aimed to create a more efficient and flexible strategy. The outcome, however, depended on the perception, understanding, predictions and expectations of individual managers that were translated into the ability to integrate and coordinate new resources. Power rebalancing occurred when the impact was perceived as a trigger to further reinforcement to articulate the strategy. Resources in that case were provided, which enabled key managers to implement their decisions. This flexibility increased the potential for adaptation as a range of strategic options. The outcome, however, depended on the time needed to make the resources available to deal with the interpreted impact. Direct availability indicated a fine-tuning of current strategy, while indirect availability indicated that resources first needed to be modified before they could be implemented.

Chapter Eight: Conclusion

In this final chapter we do not intend to offer global conclusions about cognition, interpretation and its relationship to strategic behaviour. That would be presumptuous. Rather, the chapter ends with suggestions about the need to continue exploring the substantive organisational issues. As such, the findings create opportunities for future research. The following sections give an overview of the study, identify some of the study's contributions, limitations and suggest avenues for future work that will enable researchers to gain a better understanding of the realm of strategy formulation.

8.1 Overview of the study

As discussed in the introduction of this dissertation, the effect of a common currency on trade is an important issue. By lowering transaction costs and enhancing price transparency, the single currency represents a major contribution to fostering competition and efficiency in goods and financial markets across the Euro area. As such, the advent of the Euro represents a development which is expected to have far reaching implications for businesses operating in this area. With its arrival many questions about its impact emerge. This dissertation makes a marked contribution to this aspect by examining *if* and *how* the introduction of the Euro has an impact on strategies of multinational firms in the Consumer Electronic and the food industry. A real time dual phase case study approach is adopted to trace the intended strategy before the event took place, and compare it with the realised strategy after the Euro was introduced to find out to what extent and in which ways managers (re)anticipate the impact of the Euro to determine an appropriate course of action. Findings presented in this study not only provide insight into how the response patterns evolve over time, but also how this process is influenced by perceptions, understanding, expectations and predictions of individual managers.

Reflecting on previous discussions, Chapter Two critically examined the current literature focusing mainly on the areas of strategy formulation and sensemaking. As already elaborated, strategy making processes refer to a sequence of activities or events such as scanning, analysis and planning that help to make decisions (Van de Ven, 1992). Based on this notion, two different

categories of strategy processes could be identified. The first category conceptualises the idea that organisations respond to an evolutionary and unfolding pattern of activities that appears overtime (e.g. Mintzberg, 1978; Pettigrew, 1973). This category provides a more in-depth understanding of the macro dimensions of strategy, referring to changes and transformations by organisations. From this perspective the strategic process measures *if* a change occurred at different points of time. To find out *how* a change occurred an in-depth understanding of an underlying pattern of cognitive transitions is required. What this category particularly refers to is the view of the (group of) strategist(s) as a sensemaker who formulate a strategy based on their anticipation and interpretation of the company surroundings (Weick, 1979). The review of current literature indicated that although the concept of strategy making processes has been implied in many previous studies, there are few which have tried to explore both categories simultaneously. We argue that both viewpoints are complementary as the understanding of the impact of the individual manager influences what happens in terms of the enactment of strategy of the firm. This perspective recognises the dynamic and multilevel character of the content of strategy which allows us to raise a number of important questions concerning the emergence and development of the Euro strategy over time as well as the factors that might influence this development.

In chapter three we described the methodology adapted for our empirical research. We first presented a analytical framework and its underlying theoretical and philosophical underpinnings to provide an early classification of the constructs used in the remaining chapters of the thesis. After that we detailed the contextualist approach (Pettigrew, 1985b; 1992) as adopted in this study which involved a detailed description of the multilevel approach and its related units of analysis. We drew upon elements of the sensemaking process to design a unique model for this thesis. Moreover we explained how and why we adopted Mintzbergs's and Waters' (Mintzberg & Waters, 1985) model of strategic formation. Following these two models we explained how we used elements of the incident methodology (Flanagan 1954) and the reflexive methodology (Alvesson & Sköldberg, 2000) to trace the impact of the Euro through the organisation over time.

In the second part of the chapter we detailed how the dual phase research strategy was utilised which incorporated the strengths of the comparative case study method (Yin, 2003). The design of the protocol is detailed, in which we explained the use of multiple case studies, the case selection process, and the cases selected. After that we detailed the multiple instruments used to collect data. At the early stage of analysis we addressed the notion of open and axial coding (Strauss & Corbin, 1990) to categorise the data collected from interviews and documentation. We then

outlined how the coded data was used for pattern matching using causal mapping to define cause and effect relationship and matrices to compare and contrast these relationships. The themes that emerged from the case studies through this coding process were transferred into two schemas (figure 7.1 and 7.4) that were used as a route map to discuss and further analyse the findings of the study.

Over the course of the last four chapters we have addressed different elements of the analysis – the case study descriptions (Chapter 4), industry level, firm level, and micro level patterns and contexts before the introduction of the Euro (Chapter 5), industry level, firm level, and micro level patterns and contexts after the introduction of the Euro (Chapter 6), and the discussion of the main findings (Chapter 7). The results of this analysis suggested that before the introduction of the Euro the content and timing of strategic adjustments was significantly affected by managers' anticipation of the impact on the environment of the firm. Interdependent linkages between understood components of the likely disturbance appeared to have a cumulative positive effect on attitude, which shaped the interpretation and level of anticipation. For most firms this implied that the focus initially was on the short term to meet the compulsory changeover issues and to satisfy prevailing expectations. However, additional steps were being taken when the direction of anticipation was consistent with the European strategy in use. In that case, the Euro would act as a trigger to reinforcement that stimulated to articulate the Europeanised aspects of the strategy. Amplification occurred in terms of broad parameters and direct business implications. These early implications appeared to be less dependent on previously-held interpretations [*i.e. Europeanisation efforts*] as the Euro was pre-dominantly approached as a standalone issue with specific belief systems.

After the introduction of the Euro, we found that the notion of anticipation has become more complex as strategic implications clearly shifted to the interpretation and anticipation of thinking and action of market intermediaries. This revealed a continuing and varying tension at an organisational level between anticipated impact of the Euro on the behaviour of external stakeholders and forces resistant to change which eventually determined the change that was occurring. While this changing environment to some extent necessitated a broadening of European thinking, it also appeared that no immediate action was required as this action critically depended on the behaviour of others. As a result we could distinguish between those that saw European consistencies with their strategy that could be articulated; those that saw European inconsistencies with their strategy that required adaptation; and those that were aware of the

inconsistencies with their strategy but had the view that the changes were not yet significant enough to adapt to. With this shift of impact attribution and interpretation we could identify a significant change in response patterns. A reactive response pattern occurred when the perceived impact was interpreted as temporary and controllable, indicating that the current strategy was found robust enough to withstand the impact. More proactive changes took place when reorientation led to the requirement of an articulation shift to a more international level. Adaptation was shaped through exploration and Europeanising of alternative routines and resources that could be carefully added to the current strategy to protect the firm from foreseen effects of the market change by improving the consistency of some marketing elements in the Euro zone. Proactive changes also occurred when the impact was perceived as a trigger to further reinforcement to articulate the strategy. Adaptation was shaped through existing resources and capabilities primarily to increase the centralisation of decision making and to improve the standardisation of marketing mix elements.

What our study suggests is that the probability of firms introducing new strategies quickly and proactively depends on the anticipation, interpretation and capability of managers to recognise and to exploit changes in their environment as a result of the impact of the Euro. The extent to which the managers are motivated to exploit the environment is based on the perceived match or mismatch of the developments with the current strategy. Managers that do see impact implications are driven to find more advanced solutions. For these firms we clearly notice a shift in response patterns that indicate an aim to improve elements of European consistency. The timing of this response is most evidently related to the availability of (slack) resources. Managers that limit the implications to specific issues hold back from in depth environmental scanning at this stage. We assume that this interpretation and behaviour will shift when and if the impact increases for these firms. We therefore conclude that it appears that collective interpretations move from an unformed and tentative to well-constructed, well processed viewpoints at significant different speeds.

8.2 Main contribution of the research

This study reports empirical findings into patterns of strategic development in eight MNEs in the CE and food industry that were facing the introduction of the Euro and its consequences. The

nature⁸⁸ of the introduction of the Euro provided us with a unique frame of reference that allowed us to study one particular strategic pattern within a complex organisation. In contrast to other work on strategic development (Ansoff, 1977; Porter, 1980) we took a more dynamic view akin to developments within the strategy process literature (Brown & Eisenhardt, 1998; Miles *et al.*, 1997; Mintzberg, 1978; Pettigrew, 1985; Tushman & Romanelli, 1985). We argued that within this dynamic view of strategy it is important to have an understanding of the underlying patterns of sensemaking of managers. As such, this study presents a unique insight into the strategic Euro processes adapted by the sampled firms. It also provides additional depth to our understanding of the relationship between cognition and changes in strategic action over time. Moreover, it raised a number of important issues regarding the emergence and development of strategic response, problematising the relationship between individual events and strategic change.

Following these aspects the central finding of this thesis is that:

Table 8-1: Central findings

(Cognition)	Firms aim to respond to an identifiable constitution change when it fits their current flow of sensemaking, and when the impact is taken by surprise. Whereby;
(Content)	Prior dispositions in terms of cognitive processing, strategic orientation, and structural inertia influence the timing and the way in which firms respond to an identifiable constitution of change.

This powerful conceptualisation of the response process to an external event may be broken down into smaller constituent parts, which in a fragmented way enable analysis of the composition of this process. Grounded in data, each of these constituent parts explains some specific factor or stage of this process. Most of these constructs have been topic of investigation in diverse fields of management and social research such as strategic planning, knowledge management, and decision making. However, the novelty of their use lies in positioning them together within an explanatory framework of reference (figure 3.1). In this study we further divided this framework into two interpretation schema's (figure 7.1 and 7.4) to illustrate the interrelationships before and after the event takes place. Constructs within these schemas variously explain the anticipation of emerging market changes, the interpretation of loci of causality, and the resulting transitory states of adaptation. Brought together, these constructs allow us to present a holistic view of the

⁸⁸ In addition to a compulsory element of adaptation (technical issues) that will guarantee that the Euro is indeed an issue for the firm, the introduction of the Euro would happen no matter what, forcing the managers to reanticipate their initial viewpoint and attitude.

interrelationship between the changes in cognition and the changes in strategic response. Moreover, it is essential that the context (the introduction of the Euro) is the centre of our theory of cognition, interpretation and strategic behaviour, as context is a large part of cognition itself⁸⁹.

8.3 Further Contributions and Implications

Building on a critical examination and analysis of the response of multinationals to the introduction of the Euro, this thesis provided an empirical account that is explorative in design and synergistic in nature. By concentrating on strategic development and placing additional emphasis on the cognitive processes instead of the concrete and observable actions connected with changes in the environment, insights generated by this study enhance our understanding by providing a more comprehensive picture of the chosen area. Our aim here is to discuss the above mentioned central contribution of the study by integrating the contribution and compare these constructs with existing research in organisation studies and strategic management. Furthermore, we will point out the importance of these findings and their implications both from a theoretical as well as a managerial position.

8.3.1 Theoretical contributions and implications

8.3.1.1 Managerial anticipation

The discussion before the advent of the Euro process revealed that the degree of strategic intention is based on the awareness the manager has about the complexity of the changing environment. This awareness is driven by the strategy in use and its related path dependent cognitive frameworks. These frameworks influence the components of the sensemaking process (Daft & Weick, 1984) by making some stimuli more salient than others. This result in a diversity of understanding as different rules to scan the environment are set. Moreover, different relationships are used that influence the interpretations of what is noticed, which ultimately suggests what actions should be taken (degree of adaptability). While the low levels of scanning withhold most managers from taking action before the Euro was introduced, it is an interesting observation that those that do anticipate primarily do so by taking actions directly related to the firm, rather than the anticipation of others' actions.

⁸⁹ Connecionists architectures use the human brain as a metaphor to suggest how cognitive processes might operate. See for example Weick (1995), who devoted a chapter to 'belief-driven' sensemaking processes.

Despite the fact that the strategy literature has long been concerned with understanding how organisations adapt to their changing environment (e.g. Bogner & Barr, 2000; Ginsberg, 1988; Thomas, 1993; Van De Ven & Huber, 1990), relatively little is known about to what extent speculative pieces of information are being used to construct a frame of reference that provides the managers with an understanding that might lead to anticipatory actions. Some notable exceptions are the concepts of rumour effect on cognition (Isabella, 1990), strategic thinking when dealing with uncertainty (Hofer & Schendel, 1978; March & Olsen, 1976), scenario planning (van der Heijden, 1996), strategic issue diagnosis (Dutton *et al.*, 1983), and strategic innovation (Mintzberg, 1994). However the theoretical frameworks used neither detail action taken as a result of interpretation nor do they discuss the direct effects on the interpretation of others actions. Instead the focus is on how managers collectively construe events.

The main contribution of this construct is that it provides empirical evidence that managers primarily think through their actions when planning for the Euro, rather than anticipating third parties actions. This finding suggests that before the impact is revealed, the manager will focus on conceptions and expressions of how the impact is likely going to affect the firm. The complexity of this impact understanding towards the Euro is shaped by the environmental scanning behaviour. The meaning given to the information is significantly affected by managers' mental maps such as (path-dependent) experience and intuition. Thus, the combination of scanning and mental mapping structures the interpretations of 'opportunity' or 'threat' that will have a significant impact on the nature of response.

However, most managers found it difficult to predict the consequences of these opportunistic actions. It was relatively rare that interpretations were defined along clear dimensions such as positive/negative, gain/loss or controllable/uncontrollable, resulting in a high level of ambiguity and confused priorities for action. This uncertainty holds most managers back from taking action before knowing how the landscape is changing. Even among those managers that do make predictions we find that they protect themselves from overestimation (Makadok & Walker, 2000) or forecasting errors (King & Zeithaml, 2001) by responding to obvious 'macro-patterns' (Slywotzky & Morrison, 2000) which emphasises a preference for operational improvement in response to anticipated opportunities or threats, rather than strategic change. This implies that managerial anticipation is concerned less with specific actions and more with establishing clarity of direction. Until a reasonable picture of the nature of change is constructed or a predicted nature is confirmed, managers seem to restrict themselves from involvement in the resolution process.

8.3.1.2 Managerial interpretation

Although causal attribution theory has been commonly used to gain insight into interpretation (Ford, 1985; Ford & Baucus, 1987) and link interpretation to resulting strategic actions (Lant *et al.*, 1992), ironically very little is understood about how this interpretation develops and changes over time as the outcome of a constitution of change unfolds. Based on the empirical evidence and the development impact perception over time, this study has been able to enhance understanding in the areas of causal attribution and consensus formulation. Findings about these processes revealed interesting relationships between cause/effect perception, cognitive inertia, and stress perception that enhance our understanding about how the cumulative interpretation of managers are being shaped.

By exploring the concept of ‘causal attribution’ within the setting of the Euro, this study extended Weiner (1979) and Ford (1985) event dimensions of locus of causality, degree of stability and controllability perception by providing empirical evidence on how managers shape understanding about the impact of a specific event. The most distinct pattern of change in interpretation found is the shift in notion that what the Euro does to the firm directly becomes less significant, while, on the longer term, what the Euro does to those that are indirectly related to the firm becomes more significant. This notion results in a more specific definition of the Euro as facilitating the changing role of intermediates⁹⁰. Nevertheless, the interpreted impact shortly after the advent of the Euro has not been so substantial that those that did not anticipate before hand are proven wrong. On the one hand the interpretation advocates that managers should think more broadly, while on the other the actual response significantly depends on the interpretation and anticipation of the actions and timing of intermediates.

In reply to Barr and Huff (1997), who suggest that action may reflect the anticipation of a third party, we employ the dual tendency between stability and controllability to study the connections managers make to their own activities. This process involved examination and evaluation of interpretation and understanding *if* and *why* adjustments in the current strategy are made. Drawing from various theories and ideas derived from the causal attribution literature (e.g. Barker & Barr, 2002; Ford, 1985; Lant *et al.*, 1992; Thomas, 1993; Weiner, 1979) we explored causal stability and causal controllability perceptions of managers to explain the level of stress that the managers perceive to questions the strategy in use. More specifically, a strategy that is interpreted as

⁹⁰ It is expected that intermediates will be encouraged to grow nationally and internationally as their competitive perspective is broadened as the Euro significantly improved their bargaining power.

sufficiently robust to withstand the rigours imposed by the causal attribution identified will not be changed until the levels of stress rise to unacceptable levels, and, accordingly, a range of psychological ‘defence’ mechanisms come into effect. Thus, stress is an interpretative issue as a situation might be interpreted as stressful in one organisation while it is overlooked or perceived as not stressful in others.

The analysis highlights that these levels of stress are the result of a significant interplay between interpretation of stability and controllability. This interplay adds to the current interpretative models of strategic change process, such as those described by Barr and Huff (1997) and Huff et al. (Huff *et al.*, 1992) that conceptualise increased stress levels as a major precursor to change. In this study we retained a broad view of the nature of stress and how it should be interpreted, as supposed to the proxies as used by these authors. As such, the notion of stress refers to the tension that is caused by the mismatch between the market opportunities and threats and the capacity of the current strategy to respond to these market developments. The key contribution derives from the underlying discussion that there is a significant difference in motivation to regain control that reveals further insight in the consensus formulation of belief systems.

From a cognitive inertia perspective, we explored the fact that there is the danger that managers may become overly dependent upon their mental frameworks that are related to the strategy in use. To some extent it reveals that the findings of the cause effect development are consistent with evolutionary theories (e.g. Nelson & Winter, 1982) that help to understand why organisational routines are the repertoire of the manager’s idiosyncratic collective belief system. Our findings indicate that internal factors such as information-processing constraints, organisational history, and external factors such as legal and fiscal barriers guide and to an extent lock-in managers to certain interpretations and predictions. This resulted in significant differences in stability and controllability perceptions and interpretations that suggest varying ways in which the company should respond on the impact of the Euro. This contributes to the debate that the scope of action is bound by path dependent cognitive frameworks (Lant, 2002; Porac *et al.*, 2002). However, observations also reveal that within this framework there is space to move beyond the traditional boundaries of past sensemaking. For instance, those managers that identify ‘permanent’ and ‘controllable’ impact implications experience a more significant magnitude that drives them to find more advanced solutions through additional environmental scanning and reorienting their vision that suggest steps of renewal and improvement. This relationship between cognitive inertia

and meaning seems to be not surprising as managers must poses an understanding of existing strategies to effectively influence a firm's strategic agenda.

Thus, from a consensus formulation of belief system perspective the empirical observation confirms that consensus develops during strategic change (see also Markoczy, 2000; 2001). In particular, observations reveal that attention to a wide array of information tends to influence the interpretation of strategic considerations. Such information use can be associated with heightened interpretation of stability and controllability as this enhances the understanding of complexity, which positively contributes to the accuracy of managers' interpretations. Moreover, the diverse contributions managers make to the organisational interpretation process appear to have a significant impact on the content⁹¹ and strength⁹² of consensus as this understanding facilitates other managers to understand the key strategic commitments, which on the longer term increases the scope⁹³ of consensus.

8.3.1.3 Strategic Behaviour

Despite the fact that the question of if and how organisations change their competitive strategy has become a central question in organisational research (Ginsberg, 1988), the approaches taken to answer these questions are often limited to defining the barriers or enhancements to the ability or likelihood of strategic change (e.g. Chakravarthy, 1982; Eisenhardt & Martin, 2000; Teece *et al.*, 1997) or linking managerial cognition to the process of strategic change (Barr & Huff, 1997; Bartunek, 1984; Barr & Huff, 1997; Thomas, 1993). A vital contribution of this study is that we build upon strengths and weaknesses of both paradigms, which allows us to point out the interplay between belief systems, strategic orientation and strategic capabilities. The analysis of this interrelationship reveals interesting findings about the transitory states of strategic behaviour.

8.3.1.3.1 Strategic orientation

The first application of the combined views involved the examination of the extent to which belief systems are incorporated in planning procedures that lead to a 'formal' strategy (Mintzberg, 1979). This process involved examination and evaluation of interpretation and understanding that further explain *in what way* adjustments in the current strategy are made. By exploring the concept of 'strategic development' within the virtual setting, this study has extended dynamic views of strategising and confirmed the notion that firms move across dynamic and complex

⁹¹ The content of consensus refers to what people actually agree upon.

⁹² The strength of consensus refers to how strongly people agree on the content.

⁹³ The scope refers to how many people share the consensus.

patterns to adapt to a certain environment (Brown & Eisenhardt, 1998; Webb & Pettigrew, 1999). Comparing the adaptation of belief systems with the adaptive cycle (Miles & Snow, 1978), this study has shown that the complexity that managers adapt to is often determined by its product-market strategy. This is because managers within our sample evaluate to what extent a product-market strategy is affected by the identified causal attribution, pointing out that some product strategies might be affected to a higher extent than others. This clearly results in the development that firms should pursue multiple strategies at one point of time to deal with the impact of the Euro.

This evaluation process also points out that if change occurs, it appears to be applied with a predominant view that is consistent upon the belief system. Building on Miles (1982) modes of adaptation, predominant views can be described as defensive when strategic change focuses on remaining the current strategy, or as offensive when the change focuses on reinforcement of the current strategy. Findings suggest that in times of uncertainty and turbulence firms tend to use more of traditional, defensive, strategic management techniques. In this case a defensive mode is adapted which characterised by routine driven, incremental behaviour that is focussed on maintaining organisational stability (Sproull *et al.*, 1991; Tushman & Romanelli, 1985). However, findings also illustrate that management could be receptive to critical everyday activities, if they clash with historical and existing business and strategy since this might indicate a more fundamental shift in products-market strategies. Either way, the response patterns that do occur either indicate 'small' reinforcements in terms of fine-tuning the current strategy, or additions to the current strategy with replacing some old domains. Paramount difference between the two strategies is that offensive strategies are driven by a reorientation (centralisation) of control, while defensive strategies are driven by retaining this (often autonomous) control.

8.3.1.3.2 Strategic capabilities

The second application of the combined views involved the extent to which managers face organisational inertia that hinders the support of assessing belief systems. This process involved examination and evaluation of interpretation and understanding that further explore *if* adjustments in the current strategy are made. As suggested above, change requires extremely strong signals. Delays in recognising and understanding the need for change limit the options available for decision-makers, resulting in defensive patterns of change. Even when managers recognise the need for change, the extent to which and the timing of their response effectively depends on the availability of capabilities and resources. Our findings confirm the notion that current routines are

only capable of executing a highly constrained set of response patterns (Teece *et al.*, 1997; Wernerfelt, 1984). The domain mode changes explained that the adaptive behaviour of the firm is determined by a variety of organisational and managerial factors, which include the availability of slack resources, the belief system, and the degree of centralisation and formalisation of strategic decision making. This implies that early adapters are those that possess sufficient slack resources and are able to balance these resources with the impact of the Euro on their strategy.

Within this context we demonstrate that the timing of response significantly depends upon the reorientation of power that is required to align the strategy to the (more Europeanised) belief system. Based on resource dependency theory (Pfeffer & Salancik, 1978) we could reveal two constructs that are particularly important to the timing of response. First, being able to access strategically important resources can be critical to an organisations timing. Second, the capability to absorb and utilise such resources is equally critical for the timing of response. As such, the research contributes to a growing research agenda in strategic management which turns its focus upon the internal dynamics of the organisation, often to understand its competitive advantage. Although we do not link this specifically to competitive advantage, this research provides insight into the availability of resources and capabilities (see Teece *et al.*, 1997). Furthermore, the modelling of domain offensive types of response through reorientation of power makes an empirically grounded contribution to the complexity of strategic 'fit' as this further moderates the relationship between the timing of response and firm performance.

8.3.2 Methodological contributions and implications

Investigating factors that influence the environmental interpretation process may ultimately lead to a better understanding of why organisations can be differentially effective even though the environmental changes they face are virtually the same. This research contributes to this understanding by conducting a study that to a certain extent holds the objective conditions of an environment constant by focussing on the 'true' variance in interpretation of one particular event. Reflecting on the previous accounts related to research methodology, it is clear that emphasis is typically placed upon how research can be conducted and how data can be analysed (e.g. Huberman & Miles, 1994; Yin, 1994). There are relatively few studies that provide clear guidelines on how to overcome various problems faced by the researcher(s) before and during the data collection process. In particular, it is comparatively rare to see empirical studies stating the problems or failures they faced during their fieldwork, with an exception of how the researcher(s) is overwhelmed by the richness of the collected data. It is these problems that drove us to measure

the interpretation process by drawing upon elements of the critical incident methodology (Flanagan, 1954) and the reflexive methodology (Alvesson & Sköldberg, 2000) that resulted in additional strengths of our research design, as this improved the interaction with the data.

A particular strong point of this research design is its real-time, longitudinal character that yields rich data to identify a series of strategic actions over time. This encompasses both on-going actions and those at the preliminary stage and at emergent stages. A series of interviews at two time-intervals provided the perceptions necessary to establish insight into the course of strategic action. This analysis provided an empirical basis for interrogating theories of perceptual filters (Starbuck & Milliken, 1988) while it also elaborates on existing empirical work on the relationship between perception and action (e.g Barr, 1998; Porac *et al.*, 2002; Thomas, 1993). Exploring unique aspects of one particular phenomenon help to capture the inherent complexity because it pushes the researcher to get deeply into the actual situation and try to understand all the nuances, interplay and connections. The focus on one specific event as the source of change to find out the extent to which it affected the strategic setting of the firm seems to be an appropriate approach if this event contains elements of compulsory adaptation. This real time approach helps to overcome some important problems as prior knowledge of the outcome of an event may bias a study. Specifically, this real time approach maximises the probability of discovering short lived factors and changes of temporary importance (see also Pettigrew, 1985).

From the aspect of interpretation processes it is crucial for the researcher to understand and take the 'inner/outer' frame of reference, as proposed in the concept of perspective taking (Boland & Tenkasi, 1995; Sessa, 1996). We therefore need to consider not only what beliefs managers hold but also how managers maintain their beliefs in order to document the persistence of paradigmatic affiliation in the face of vigorous dispute in order to understand how they interpret the ongoing changes in the market. This refers to the patterns of thinking and acting that are collectively meaningful to managers in the situation, and includes the interactions through which managers generate and enact shared interpretative schemes, those schemes themselves, and the frameworks, roles, rules, procedures, routines, and so on that embody meanings (Polanyi & Prosch, 1975; Weber, 1947). Without observing an interpretative process from the manager's perspective, it becomes difficult to understand the dynamics confronting managers who are directing the change effort, and thereby generate new knowledge that advances the theory and practice of managing change.

In comparison to previous interpretative studies (Barker & Barr, 2002; Barr & Huff, 1997; Tripsas & Gavetti, 2000) the research designs contains opportunities for multiple comparisons and contrasts among industries, firms, and individuals in order to trace the potential theme thoroughly. A ‘good’ set of data always captures alternate situations or variations of some kind (Strauss, 1987). Finally, there are several different perspectives which capture different aspects of the same process (Pettigrew, 1990), which indicates that when researchers have only a single perspective or theory, they tend to twist and rationalise facts to fit their model. Consequently, we believe that a strong point of this thesis is the way in which theories are juxtaposed (particularly cognitive and strategy making) to determine which theory better explains the data, or how these theories overlap.

8.4 Limitations of the study

In Chapter 3 we commented extensively on the issue of the credibility and the relevance of our findings. We particularly put these criteria forward for the assessment process. From this viewpoint we presented arguments of generalisability, validity, creditability and reflexivity as proposed by Alvesson and Skölberg (2000), Eisenhardt (1989), Pettigrew (1985; 1992; 2001) and Yin (1994; 2003). We discussed in-depth the steps and efforts we have undertaken to ensure validity of our study. Through the course of this thesis we demonstrated how the findings of our study are well supported by existing literature. We also verified in what way the empirical evidence are generalised to link these findings to the focus of our research. However, the above criteria also highlight the main limitation of this study as it questions the extent to which the account accurately captures the phenomenon being described. The ‘inner/outer’ frame of reference as proposed in this study maps the perceptions and interpretations of participants and to some extent documents the cultural resources by which these were produced. Although this represents people’s perspectives and/or behaviour and context accurately, this view is limited as it does not consist simply or fixed response, but it involves interpretation of stimuli and the construction of responses. From this perspective we notice two key limitations that influence the validity and generalisability of our findings.

Firstly, the frame of reference as used in this study introduces a unit of analysis problem as we asked managers about the nature of their decisions. From this point of view, the decision makers also provide the explanation of why this decision is taken. The danger with this type of research is not whether the managers are right or wrong, but the pitfalls arise that it is a tacit frame of reference which cannot be scrutinised and challenged. It would have strengthened the research if

we could have tested the balance between their intentions and their interpretations. Even so, subjectivity is inherent and cannot be eliminated. As such, we attempted to minimise the effect of the researcher on the researched and aimed to maximise the depth of information obtained. Secondly, the finding that the complexity the organisation chooses to adapt to is determined by its product market strategy points out that it is difficult to generalise the current impact interpretations for all product markets. Nevertheless, this clearly influences the way managers view and interpret the impact of the Euro. In this context managers often drop back on a particular, often product market, framework to explain what decisions have been made to deal with the impact. This inevitably influences, and to some extent, colours what is focussed upon as the problematic, as well as what is emphasised in the analysis.

Another limitation of this study is caused by the difficulty in separating the Euro process from other strategic development issues which potentially limits the study as some variance in interpretation about the impact of the Euro might be conflated with other potential differences. As our findings reveal, actions taken following a significant event in the environment are not just a response to that event. Rather, strategic response occurs to a perceived trend in the environment that is triggered by many issues. Even though some attempts were made to define other issues, we did not explore in depth how these issues influence the response pattern. We recognise that the focus on one strategic pattern among many others is to some extent to be a simplification of reality as there might be an emerging consistent view in relation to the Euro, running in parallel to the development of a European strategy, that is not being explained through the impact of the Euro. Consequently we believe that a firm's long-run European adaptation is realised through a critical series of strategic behaviours, organisational capability to design effective strategic behaviours and organisational structure.

Another limitation is the way in which the management process is studied. The notion that organisational actors at all levels contribute to the consensus building process is gradually accepted (Burgelman, 1994). This study explores particularly how top management team members shape their strategic knowledge to achieve consensus about the impact of the Euro on their organisation. In a way this has prevented the examination of potentially interesting avenues relating the interpretative nuances of strategy making. As such, the thesis, while clear in its theoretical origins and consistent in using these to structure the research design and further arguments, may present an overall partial view of the perceived impact of the Euro.

A final remark is that our findings are based on a comparative case study of European based multinationals in the CE and Food industry. Consequently, there must be questions as to the extent to which these findings are applicable to other contexts. Because the extent to which our findings are supported by elements of the literature on strategic development and interpretation processes, some level of generalisability can be claimed. However, the originality of this work within the strategy literature cannot be claimed until further research into other industries is carried out. This is a critical issue which needs to be resolved before we can claim generalisability of the findings.

8.5 Future research agendas

The literature to date has concentrated most of its attention on passive or reactive modes of adaptation that are motivated mostly by discomfort and threat. Moreover, only few linked this process to interpretation and cognition (Barr & Huff, 1997; Isabella, 1990; Mezias *et al.*, 2001). As a result, little is understood about how interpretations of a changing environment and the resulting actions and reactions evolve over time. This lack of research is not that surprising as studies that attempt to capture multi level interpretation often face considerable difficulties to trace both interpretations and their salience between for example, people, units, departments, divisions, and subsidiaries. In other words, within dynamic cognitive driven models of strategy it is very difficult to ground the underlying ideas, concepts, and beliefs. We could avoid these difficulties to some considerable extent as the Euro presented us with a traceable path for observation and discussions. Consequently, the empirical evidence of this study provides an additional viewpoint about the interplay between interpretations and actions which recognises the dynamic and complex character of the content and context of strategy. These findings raise a number of additional questions concerning the emergence and development of particular strategies within a firm over time and the factors that trigger such changes that should be further explored in the future. In this section we will highlight the key issues that deserve further attention.

From a cognitive point of view much is still to be learned regarding whether collective cognition is the aggregation of individual cognition or the outcome of interactive, social processes (Fiol, 2002; Lant, 2002; Porac *et al.*, 2002). An interesting question in this context is how a convergence in collective frames of reference come about. Does it arise because individuals use the same cognitive processes, or is social interaction a more important element? We argue that is most

likely that the answer lies somewhere in between. We therefore suggest that cognition should be conceived of not as 'frames' but rather as a situated process of 'framing', where cognition is part of the social and material circumstances and collective in that it is the product of interactions among people (Hutchins, 1995). Rather than continued effort to document consensus in a static way, we propose a more dynamic approach that incorporates time-dependent analysis. It therefore is relevant to further examine the relationship of both the cognitive process of developing and using mental models and the content and structure in the organisation itself to understand the emergence of a collective belief system within the organisation.

This suggestion has broad implications. For example from a 'framing' perspective it would be interesting to explore how knowledge transfers take place in organisations. Our current learning theories rest on older assumptions about cognition and organisations. In other words, if one assumes a fixed cognitive structure and a centralised organisational form, learning is assumed to flow from knowledge content that is transmitted across organisations. Another interesting question is to what extent do managers anticipate the changing nature of an event and take (preventive) action to deal with this change. It seems reasonable to expect that announced changes such as deregulation or economic integration are anticipated to a certain extent, leading to early judgments about how the change is going to affect the firm. This study suggests that prior attention is given to what might be called 'first order anticipation' that refers to direct business implications rather than the anticipation of third party behaviour.

From a strategic content perspective, our findings that domain mode changes happen through (significant) fine-tuning and creation of new resources point out that opportunistic adaptors are intrinsically motivated rather than driven by perceived threats or failures. This thesis argues that the availability of capabilities and resources and particularly the ability to utilise these resources significantly affects the timing of strategic response. Despite the fact that this study elaborates the nature of development, it clearly requires more research to examine how the resources are made available, and what issues influence such decision making process. Concepts of the resource based view (Wernerfelt, 1984) and inertia (Cyert & March, 1963) will provide a useful foundation in anticipating such issues. In particular, this additional viewpoint to the resource based view should be tested in different settings, as timing is an essential issue for competitive advantage and firms' performance. As such, it is essential that a longitudinal approach is adopted as actions unfold over time.

From an interplay point of view, this thesis has stressed that a key component in a firm's strategic response to a change in market conditions is the result of the interpretation people develop about the event itself. As previously argued, there is an intercorrelated relationship between both factors that is measuring the conceptual distinction between thinking and acting. While this study has primarily focussed on the interrelationship between both factors, future research should further identify and explore a range of suitable variables on the micro and macro level that correlate with this cognition/action relationship.

From an empirical point of view, we adopted an interpretative methodology associated with subjective and qualitative analysis of managerial perceptions to gain in depth insight in the strategic response process to the impact of the Euro. We aimed to answer if and how firms responded to the introduction of the Euro as the event unfolded overtime. Although bringing these two approaches together provided us with the tools to investigate our research goals, it also mixes methodologies which are inherently complex. While this approach has clear advantages, it also should be treated with caution as it has the potential to lack theoretical rigour (Alvesson & Sköldbberg, 2000) as the outcome depends significantly upon the change process studied. We therefore argue that there is an important challenge to craft empirical research to understand the interesting interplays between cognition and action further.

Appendix A:

Interview guide T^o

The multinational firm (firm characteristics)

- **General MNE characteristics**

Question	Prompt
In what markets is the MNE operating?	<ul style="list-style-type: none">• Which European countries• Importance of Europe as a market
In what industries is the MNE operating?	<ul style="list-style-type: none">• High tech (technology)?• Money spend on R&D (% sales)
What kind of products do you sell in these industries?	
What are your main (most important) products? Why?	<ul style="list-style-type: none">• Brand, sales, history, other
To whom are these products mainly sold?	<ul style="list-style-type: none">• B to B, Industry, final consumer
In your opinion, what are the main reasons for success or failure of these products?	

The market context (Macro characteristics)

- Importance of the Euro-zone for the MNE

Question	Prompt
How important is Europe as a market for the main products? Why?	
As a percentage of sales in Europe, how much is sold to the Euro-zone countries?	

- Market approach: Segmentation

Question	Prompt
Does the MNE see Europe as one market or does it work with pan-European segments?	<ul style="list-style-type: none">• If so, how segmented
Has the Single Market changed this viewpoint?	<ul style="list-style-type: none">• More local or more global
Will the Euro change this viewpoint? If so, how?	<ul style="list-style-type: none">• SM vs. Euro-zone

The Industry context (industrial characteristics)

- Global competition

Question	Prompt
What kind of competition is there in the Euro-zone, global or local?	
Who do you see as your main competitors?	<ul style="list-style-type: none">• Euro-zone

- Product competition (product characteristics)

Question	Prompt
How important is the quality of the product in this industry, especially in the Euro-zone?	<ul style="list-style-type: none"> • Product features • Uniqueness • Culture specificity
Are there uniform consumer patterns in Europe in relation to the products you sell?	<ul style="list-style-type: none"> • Difference in competition among countries
Is there an enormous difference between your products and those of your competitors?	<ul style="list-style-type: none"> • If so, what are the main differences • If not, more price competition?

- Price competition

Question	Prompt
Is the industry price sensitive?	<ul style="list-style-type: none"> • Importance to consumers • Buying behaviour • Price awareness • Differences among countries
How much price difference is there in this sector?	<ul style="list-style-type: none"> • Competitors

The multinational firm (firm characteristics)

- The Host MNE and subsidiary relationship

Question	Prompt
How important is the nationality of the MNE in terms of company culture?	<ul style="list-style-type: none"> • Impact on management
Does the nationality of the MNE have any positive or negative influence in relation to the European market, the Single market and the Euro?	<ul style="list-style-type: none"> • European experience (European vs. non European) • Costs of production and distribution • Impact on the price
How many subsidiaries are there in Europe?	<ul style="list-style-type: none"> • International experience • Number of foreign markets • Importance of Euro-zone
What is the role of the subsidiary?	<ul style="list-style-type: none"> • Profit centre
Does the host MNE set objectives or does every subsidiary set its own objectives?	<ul style="list-style-type: none"> • Strategic: Competitive response
To what extent does the Host MNE influence the marketing of subsidiaries?	<ul style="list-style-type: none"> • Centralised versus Decentralised

- Subject Area: Standardisation

Question	Prompt
To what extend is the MNE standardised in terms of marketing?	<ul style="list-style-type: none"> • 4p's • Process oriented standardisation or programme oriented
Does the MNE see standardisation as a focus on consumers and products?	<ul style="list-style-type: none"> • Impact on 4p's interrelation-ship • Adaptation strategy
Does the present technology make standardisation of products possible?	<ul style="list-style-type: none"> • Benefit Economies of scale • European standardised products' • Impact on production/logistics/price
On a scale from 1-5 how standardised is the firm's marketing activity relating to for example: Brands, positioning, product features, promotional activity, channels, price?	
Does a more/less standardised approach influence the price?	<ul style="list-style-type: none"> • Lower?
What do consumers in this industry prefer: lower price or variety of products? Why?	

- Subject Area: Standardisation: Product and Promotion

Question	Prompt
Does the MNE have any global (Pan-European) brands?	<ul style="list-style-type: none"> • Standardised Product, price (extent) • Standardised marketing strategy (advertising)
Is it possible to standardise the (some) products?	<ul style="list-style-type: none"> • Nature of the product • Desirable

- Subject Area: Level of contingency

Question	Prompt
Is the MNE product or market driven?	<ul style="list-style-type: none"> • Combination
Which internal/external factors influence this decision?	
Has there been a move towards one position over the past years?	<ul style="list-style-type: none"> • Specific products

- Subject Area: Pricing Strategy

Question	Prompt
How does the MNE relate the marketing-mix elements to pricing?	<ul style="list-style-type: none"> • Other internal aspects
What are according to the respondent the key external factors that influence the pricing strategy?	<ul style="list-style-type: none"> • Politic, economic and market aspects
How are pricing decisions made?	<ul style="list-style-type: none"> • management

To what extent can subsidiaries make their own price decision?	<ul style="list-style-type: none"> • Influence of host MNE
<p>On a scale from 1-5 how important are the following issues in relation to the pricing strategy:</p> <ul style="list-style-type: none"> - Nature of the Product/industry - Location of the production facility - Distribution system - Location and environment of the foreign market - Foreign currency differentials - Political environment - Government regulation - Cultural differences - Product quality 	<ul style="list-style-type: none"> • Any more external variables • Influence the decision to move towards price harmonisation

- Subject: Euro general

Question	Prompt
When did the MNE implement the Euro?	
Was this done at the same moment as other subsidiaries?	
Can you explain the implementation process at this MNE?	
What where the first thoughts of the Euro related to the strategy of the MNE?	
How is the Euro perceived in general, as an opportunity or threat?	<ul style="list-style-type: none"> • Financial problem
Did this viewpoint changed in the past period?	<ul style="list-style-type: none"> • Strategic
Has the introduction of the Euro influenced the MNE objectives in terms of profit, sales and market approach?	

- Subject Area: Euro impact

Question	Prompt
To what extend did exchange rates influence pricing strategies in the past?	<ul style="list-style-type: none"> • Influence on profit margin • More expensive product
Did the arrival of the Euro reduce these risks?	<ul style="list-style-type: none"> • Transaction cost reduction • If so: lower prices? • More price-competition?

- Subject Area: Euro Strategy

Question	Prompt
Do you agree with the expectation that the Euro will shed a light on price differences in the Euro-zone?	<ul style="list-style-type: none"> • How does this influence the pricing strategy? • Do you expect more competition from abroad?
Do you expect that the Euro will lead to more price competition?	<ul style="list-style-type: none"> • Will you lower the price? <ul style="list-style-type: none"> • In what other ways can you respond on price competition?

What is the impact of the concept of price transparency that arises with the introduction of the Euro on price setting?	<ul style="list-style-type: none"> • Price strategy • Lower prices
To what extent does the Euro force you to put prices on the same level within the Euro-zone?	<ul style="list-style-type: none"> • Price harmonisation
Does the respondent expect that consumers will be more aware of price differences in the Euro zone?	<ul style="list-style-type: none"> • Short term/ long term
Has the price become more standardised as a result of the Euro? If so, why?	
Is this the same for all brands or does the Euro affect certain brands more than others?	
What is the impact of the Euro on global brands?	<ul style="list-style-type: none"> • Same or different? Why?
Are price differences acceptable for your customers within the Euro-zone?	
How does the MNE deal with present price differences in the Euro-zone?	<ul style="list-style-type: none"> • Impact on profit margin • Product differentiation
How is being dealt with psychological pricing issues?	

- Subject Area: European Union

Question	Prompt
Are there any European laws (restrictions) that influence the price of your product(s)?	<ul style="list-style-type: none"> • Other marketing mix elements • Industry related laws
How did the MNE respond on the introduction of the Single Market in 1992?	<ul style="list-style-type: none"> • Opportunities/ Threats • Influence on market conditions
Are the harmonising efforts of laws and regulations in the EU an advantage or disadvantage for the MNE? Why?	
What impact did the Single Market as a Free Trade Area have on the MNE?	<ul style="list-style-type: none"> • Segmentation • Products • Pricing
Are the European standards, higher or lower than those of the MNE (production)?	
Does this influence the overall costs of the product, and therefore the price?	<ul style="list-style-type: none"> • Change quality?
Does the respondent think that cultural differences in the Euro-zone will influence the demand, and therefore possibility of globalisation, standardisation and price harmonisation?	<ul style="list-style-type: none"> • Language barriers

Appendix B:

Interview guide T¹

The market context (European viewpoints)

- European viewpoints: Possibility of clustering

Question
How does the MNE see Europe?
What are the MNE viewpoints and expectations about the emerging European market?

- Market approach: the Euro consumer

Question
Are European consumers meeting the global picture?
Do you see any European clusters?
What is the role of consumer differences based on culture, habits, income etc. during the segmentation process?
What main characteristics are taken into account to identify these clusters?

- Importance of the Euro-zone for the MNE

Question
How important is Europe as a market for the company? Why?

- Market approach: Segmentation

Question	Prompt
Does the MNE see Europe as one market or does it work with pan-European segments?	<ul style="list-style-type: none">• If so, how segmented
Did any market changes stimulated re-segmentation over the past 10 years?	<ul style="list-style-type: none">• More local or more global
Do you see any possibilities to see Europe as one market? Why (not)?	
Are there similar consumer patterns that transcend national boundaries?	
How are consumers grouped? Based on environmental variables or marketing based?	

The Industry context (industrial characteristics)

- Global competition

Question
Is the industry global or local in character? Why?
What kind of competition is there in the Euro-zone, global or local?
What drives the competition on a national level? European level? Is the industry price sensitive?

The Business context (how to approach the European market)

- Subject Area: Level of contingency

Question	Prompt
Is the company in favour of a global strategy?	Global positioning versus accurate positioning.
Is the MNE product or market driven?	Combination
Is it necessary and desirable to market and marketing on a European level?	
Do you believe in the European market as it starts to evolve?	
How does it effect the business strategy?	
Are products positioned similarly in Europe?	
Is the marketing strategy an extension of the business strategy?	
Are subsidiaries representing a global competitive advantage?	
Do subsidiaries aim to create there own competitive advantage?	

The marketing context (the European marketing approach)

- Subject Area: Standardisation

Question	Prompt
How is the firm using standardisation?	<ul style="list-style-type: none">• Extend 4p's• Process oriented standardisation or programme oriented
Does the present technology make standardisation of products possible?	<ul style="list-style-type: none">• Benefit Economies of scale• European standardised products?• Impact on production/logistics/price

- Subject Area: Standardisation: Product and Promotion

Question	Prompt
Are the same promotion tools used in Europe?	<ul style="list-style-type: none">• What tools?
Is it possible to standardise the products?	<ul style="list-style-type: none">• Nature of the product• Desirable

- Subject Area: Standardisation: Distribution

Question	Prompt
Are there many European retailers?	<ul style="list-style-type: none">• Percentage

Do distributors have bargaining power in this industry?	
Is this the same in other European countries?	
Is the main product group of the company sold via similar distribution channels?	<ul style="list-style-type: none">• Same in Europe
What is the impact of the distributor image on the product image?	
Global positioning or local accurate product positioning?	

- Subject Area: Pricing Strategy

Question
Is it possible and desirable to standardise prices?
Are there any external forces that stimulate price harmonisation in Europe?
What is the role of the Euro in this context?
How are pricing decisions made?
What role plays the market environment on pricing?
Does the company respond on competitive price changes? Are retailers pushing to do so?

Strategy formulation (firm characteristics)

- Formulation

Question
How are strategies formulated?
What is the importance of flexibility in strategic formulation?
How does the company make certain strategies work in particular environments?
What issues are taken into account when formulating strategies?
Do strategies need to be aligned to the local market?

- The European Network

Question	Prompt
How integrated is the European network?	<ul style="list-style-type: none">• Regular meetings• European control
How is market knowledge shared, only to HQ or also with other subsidiaries?	
Is knowledge integration stimulated throughout the company? On what level?	
How many subsidiaries are there in Europe?	<ul style="list-style-type: none">• International experience• Number of foreign markets• Importance of Euro-zone
What is the role of the subsidiary?	<ul style="list-style-type: none">• Profit centre
Does the host MNE set objectives or does every subsidiary set its own objectives?	<ul style="list-style-type: none">• Strategic: Competitive response
To what extent does the Host MNE influence	<ul style="list-style-type: none">• Centralised versus Decentralised

the marketing of subsidiaries?	
How does the subsidiary contribute to the MNC goals?	

- The level of autonomy

Question
How does the chosen strategy (global/local) and the perception of the European market influence the marketing actions?
To what extend does the HQ have certain control over the national strategies?
What level is the company focussing on, global, European or national?
To what extend do subsidiaries formulate strategies?

Strategic Control (inta-firm characteristics)

- The Host MNE and subsidiary relationship

Question	Prompt
How important is the nationality of the MNE in terms of company culture?	<ul style="list-style-type: none"> • Impact on management
Does the nationality of the MNE have any positive or negative influence in relation to the European market, the Single market and the Euro?	<ul style="list-style-type: none"> • European experience (European vs. non European) • Costs of production and distribution • Impact on the price
How many subsidiaries are there in Europe?	<ul style="list-style-type: none"> • International experience • Number of foreign markets • Importance of Euro-zone
What is the role of the subsidiary?	<ul style="list-style-type: none"> • Profit centre
Does the host MNE set objectives or does every subsidiary set its own objectives?	<ul style="list-style-type: none"> • Strategic: Competitive response
To what extent does the Host MNE influence the marketing of subsidiaries?	<ul style="list-style-type: none"> • Centralised versus Decentralised
Does the global strategy (if desired) restrict firms on a local level?	

Strategic Control (extra-firm characteristics)

- The external environment (changing environment)

Question
What is the influence of the market environment on management decisions?
How does the MNE respond to changes in the Market place?
How are these changes articulated?
Are strategy adjustments made across nations as a result of political/economic issues?
Is the Euro used strategically to push to any changes?
What other external elements play a significant role when defining a strategy?

How does the firm reduce globalisation forces?
Are global drivers such as the Euro and the single market replacing local barriers?
Are there different product standards in Europe that increase local adaptation?

- Subject: Importance of the Euro

Question	Prompt
Is the Euro important for the company? Why (not)?	
How does the firm see the Euro?	Strategic vs. technical
How does the firm characterise the significance of the Euro?	
What where the first thoughts of the Euro related to the strategy of the MNE?	
How is the Euro perceived in general, as an opportunity or threat?	<ul style="list-style-type: none"> • Financial problem
Did this viewpoint changed in the past period?	<ul style="list-style-type: none"> • Strategic
Has the introduction of the Euro influenced the MNE objectives in terms of profit, sales and market approach?	

- Subject Area: Euro impact

Question	Prompt
Did the Euro lead to any strategic changes?	<ul style="list-style-type: none"> • Before, or after introduction?
How did they pattern these changes?	<ul style="list-style-type: none"> •
Why did they pattern it in the way they did?	<ul style="list-style-type: none"> • Reasons of doing so, i.e. origin

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